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MAY 1978

INFLATION in One Page

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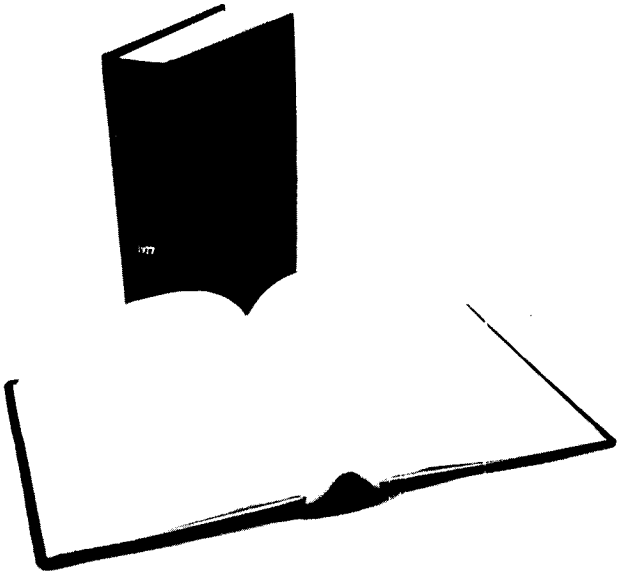

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VOL. 28, NO. 5 • MAY 1978

The Free Lunch Myth — **E. C. Pasour, Jr.** — **259**
Why the individual should beware of all offerings of "free lunches."

Walking into a Trap — **Gary North** — **265**
How business and professional groups are baited to become victims of regulations and control.

Inflation in One Page — **Henry Hazlitt** — **276**
Printing money to cover government deficits is curable: slash spending to balance the budget.

World in the Grip of an Idea
17. Sweden: Tightening the Screws — **Clarence B. Carson** — **278**
Socialism operates under the cloak of democracy to undermine the freedom of the individual.

Risk and Profit versus Security — **Kenneth McDonald** — **291**
The search for security gives rise to taxes and drives away the risk which accompanies creativity.

Government Regulation and Business Management — **John Semmens** — **297**
The State's invasion of managerial prerogatives has occurred on all fronts.

The Idea of Equality in America — **L. John Van Til** — **303**
That every man shall have an equal chance—that every man shall be free to become as unequal as he can.

Book Reviews: — **318**
"The Future That Doesn't Work: Social Democracy's Failures in Britain" edited by R. Emmett Tyrrell, Jr.

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E. C. Pasour, Jr.

The Free Lunch Myth

THE conventional wisdom about scarcity has changed dramatically in recent years. Only a few years ago, a fashionable view held that we had reached or were nearing the end of the age of scarcity. According to this view, popularized by Professor Galbraith, our affluent society was approaching a time when all our "basic needs" could be met. Today, the pendulum has swung in the opposite direction. A series of events including the "environmental crisis," the "energy crisis," and the "world hunger crisis" have made clear to most people that scarcity is and will remain a fact of life. Governor Brown of California describes our era as an "age of limits."

Dr. Pasour is Professor of Economics at North Carolina State University at Raleigh.

Although the public conception of scarcity may change, scarcity is a basic enduring reality and an inherent fact of life. Every age is and must be an age of scarcity. Scarcity of any good or service means that it has an opportunity cost. That is, in order to obtain more of any good or service other goods or services must be given up.

Scarcity is a fact of life for individuals as well as governments. Yet, in spite of ample evidence that all useful goods and services involve a cost, the myth persists that "free lunches" are attainable. The economic concept "free lunch" means that an individual or group can be provided a good or service at no cost to the individual receiving the benefit or to anyone else. Scarcity means

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that the "free lunch" is and must remain an illusion.

Consumerism and the Free Lunch

The "free lunch" myth has been responsible for much of the "consumer" and environmental legislation of recent years. Ralph Nader and other consumer advocates led us to believe that automobiles could be made safer at little or no cost to the consumer. The results of this myth are now apparent, being reflected in higher auto costs. The mandatory air bag requirement when implemented will further increase the price of a new car by several hundred dollars.

The purported "free lunch" in the case of mandated safety regulations has been found to be quite expensive. Some people may prefer to pay a higher price as a way of reducing risk. More important, however, is that for most of us the supposedly "free lunches" turn out to be entrees which we didn't order and don't even wish to eat when served! Auto air bags, seat belts, shoulder harness and the interlock safety system are good examples. Public reaction against the interlock system for seatbelts was such that Congress repealed this safety requirement.

Much of the support for consumer safety legislation of recent years has been based on a lack of recognition by the public about the ultimate incidence of the legislation. People will desire to reduce risk as long as the expected benefits exceed the costs. Public support for safer automobiles, drugs, lawn mowers, and the like has been overstated where consumers are led to believe that safety can be increased at no cost to them. Politicians contribute to this confusion with demogogic statements that any relaxation in a safety standard is a "sellout" to the industry involved, that manufacturers should always be responsible for safety in the use of products sold, that only drugs which are completely safe should be sold, and so on. Implicit in such rhetoric is the "free lunch" myth that risk can be reduced without cost to consumers.

Pollution and the Free Lunch

The "free lunch" myth is also responsible for much of the impetus behind the environmental movement. We are told that clean water (or clean air) is "priceless" but we are not told what the costs will be of obtaining the clean water (or clean air). The so called "Muskie clean water bill" of 1972 declared a national goal to end the discharge of pollutants into the nation's waterways by 1985. This amounts to a national goal to achieve a zero level of water pollution. The cost of attaining such a standard, even if technically possible, would be astronomical.

In this case, the "free lunch" myth

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takes a slightly different form. The consumer is misled into thinking that a good or service will be provided free to him at the expense of the industries providing consumer goods and services. If the apparent cost is less than the actual cost, demand will be overstated. Indeed, the fact that costs to the public were perceived to be unrealistically low is almost certain to have been responsible for much of the public support in the case of the Muskie clean water bill.

Excess Profits and the Free Lunch

Another interesting variant of the "free lunch" myth arises in the case of proposals to roll back oil prices or to tax "excess profits" of the oil industry. As President Carter, Senator Jackson and other politicians castigate the excess ("obscene") profits of the oil industry, the erroneous idea is promoted that profits of the oil industry can be taxed away without affecting the domestic supply of petroleum products. In other words, the public is led to believe that there is a "free lunch" involved in the sense that oil prices can be "rolled back" or profits reduced without affecting producer incentives and long-run oil production. (It isn't denied, of course, that this would reduce income of the producers.)

Economic theory suggests that roll backs in price or profits will not affect production only if producers are completely unresponsive to product price (i.e., if supply is perfectly inelastic). The Carter Administration's contention that price ceilings on oil and natural gas will not affect future production is a good example of the idea that production is unrelated to price. Producers of oil and natural gas, however, are similar to producers of other products. They do respond to economic incentives. This means that more oil and natural gas will be produced the higher the price.

Legislation which effectively reduces price (or profits) to producers will inevitably reduce output. If "excess profits" are defined (consistent with the free-lunch myth) as profits which do not affect output, *there are no excess profits.* There are no profits which can be taxed away without affecting future production. Thus, the relevant issue is not whether "excess profits" should be taxed away. Instead, the relevant policy issue concerns *how much* higher taxes or lower prices will affect output both in the short run and in the long run. The "obscene profits" rhetoric obfuscates the basic issues and, indeed, serves to perpetuate the "free lunch" myth.

World Hunger and the Free Lunch

The "free lunch" myth also plays a prominent role in current discussions relating to world hunger and

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poverty problems. The free-lunch myth is involved in several ways. A New International Economic Order (NIEO) has been approved by the UN to redistribute income from the United States and other industrial countries to the less developed countries. The NIEO involves a wide range of interventionist schemes ranging from price-raising cartels for major products sold by the less developed countries to increased foreign aid by the developed countries. The NIEO is fundamentally anti-market in mentality and assumes that arbitrarily redistributing income from the West to the less developed countries will have no important effect on production. Yet, there is ample evidence that individuals in the U.S. as well as other countries respond to economic incentives. Thus, there is every reason to expect that action taken to forcefully redistribute income between countries will adversely affect output. There is no "free lunch" involved.

Individuals in the West are encouraged to reduce waste in the use of food, gasoline, electricity and other energy sources. Citizens in the United States and other highly developed countries are told that they should change their life style, reducing consumption to the amount actually "needed." The concept of waste implies that consumption can be reduced without any adverse effect on consumer welfare, i.e., that there is a "free lunch."

There are two problems with this proposed "free lunch" approach of reducing consumption as a way of alleviating world food problems. First, a reduction in food eaten by a U.S. citizen doesn't mean that more food will be available for the world's hungry people. Even if the food is given as food aid, we can't assume that the effects will be favorable. In some cases, (e.g., Tanzania) food aid permits the government to engage in collectivist social experiments which are a *major cause* of food problems.

Need, Waste and the Free Lunch

The second problem with the approach of reducing our consumption to the amount "needed" is that the concept of "need" is meaningless as a guide to our daily activities. How much beef, housing, gasoline, heating fuel, or clothing do we "need"? We as individuals respond to relative price changes and consume relatively less of those goods whose prices increase. The higher the price, the less of any product we consume—whether it be food, clothing, gasoline, heating fuel, or housing.

The concept "waste" implies that there is some minimum amount of a product which is "needed" regardless of price and that larger amounts of the product provide no additional

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satisfaction (i.e., that demand is perfectly inelastic). If this were the case, amounts of the product above this minimum level could be removed at no loss in satisfaction to the consumer and would, in fact, be a "free lunch." Can any of us give up expenditures in food, clothing, travel, and so forth without feeling a loss in satisfaction? It is easy for us to find such "waste" *only* in the consumption habits of *other people!*

The use of the family car provides an interesting example of the impossibility of identifying waste. It is often alleged that the typical motorist wastes gasoline by using the auto more than is "needed." We observe that a neighbor Jones drives his own car to work each day when he could form a car pool; drives his car on short trips when he could walk or ride a bicycle; takes vacation trips out-of-state when vacations could be taken in-state (or at home); and uses the car for a host of other "non-essential" purposes. Yet, there is no basis for us or any other outside observer to conclude that any of these uses of the auto by Jones are "wasteful" in any meaningful sense.

The problem is that the concept "need" has little if any meaning. We, as motorists, respond to relative prices in deciding where to live, how to get to work, where to vacation, and so on. Virtually everything we do could (and would) be done in some other way if relative costs changed. The attempts to get people to change driving habits are likely to have little effect so long as relative prices remain unchanged. On the other hand, if gasoline prices were to double, no one would have to encourage consumers to economize in the use of gasoline.

Conclusion: Beware All Free Lunches

Undoubtedly the world would be a quite different place if the "free lunch" were fact not myth. However, it is a world difficult even to imagine. We would not be constrained by problems of scarcity to the extent that this were, in fact, the case. Then, we could provide more food, more energy, cleaner air, cleaner water, and the like without cost, i.e., without sacrificing anything valuable. In this case, there would be no need for the Sierra Club to lobby for environmental issues, for Senator Hatfield to lobby for the world's hungry, for President Carter's worry about the "energy crisis," or for Ralph Nader to protect us from unsafe cars and other consumer products.

The individual consumer can determine and support the kind of legislation he desires only if he knows the cost of alternative courses of action. A necessary first step is the realization that the "free lunch" idea is a myth. In the energy, envi-

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ronmental, and safety areas, a great deal of legislation has been enacted under false pretenses. All such legislation involves increases in cost. Much of this legislation would have not enjoyed public support if the costs had received equal billing with the benefits.

The fact that government frequently enables some people to benefit at the expense of other people is apparent in this age of transfer payments. Yet, the possibility of the use of the state to enrich everyone at the expense of everyone else is no less an illusion today than at the time of Bastiat.

The individual should also be wary of proposals to obtain "free lunches" by reducing "waste." Mandated reductions in use of energy sources including gasoline and electricity always involve a cost to the consumer. The consumer who is forced to use less electricity, gasoline or any other good is worse off even though price remains the same. Mandated reductions are fundamentally different from voluntary reductions in use induced by price increases. Rationing through the price system permits much more flexibility in catering to a diversity of individual tastes and circumstances.

In summary, the individual should be skeptical of all "free lunch" proposals. He should be especially wary of those designed for him.

IDEAS ON LIBERTY

Conscienceless Coercion

It must be remembered that 95 per cent of the peace, order, and welfare existing in human society is always produced by the conscientious practice of man-to-man justice and person-to-person charity. When any part of this important domain of personal virtue is transferred to government, that part is automatically released from the restraints of morality and put into the area of conscienceless coercion. The field of personal responsibility is thus reduced at the same time and to the same extent that the boundaries of irresponsibility are enlarged.

Government cannot manage these fields of human welfare with the justice, economy, and effectiveness that are possible when these same fields are the direct responsibility of morally sensitive human beings. This loss of justice, economy, and effectiveness is increased in the proportion that such governmental management is centralized.

CLARENCE MANION, "Legalized Immorality"

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Gary North

WALKING INTO A TRAP

There is some justification at least in the taunt that many of the pretending defenders of "free enterprise" are in fact defenders of privileges and advocates of government activity in their favor rather than opponents of all privilege. In principle the industrial protectionism and government-supported cartels and the agricultural policies of the conservative groups are not different from the proposals for a more far-reaching direction of economic life sponsored by the socialists. It is an illusion when the more conservative interventionists believe that they will be able to confine these government controls to the particular kinds of which they approve. In a democratic society, at any rate, once the principle is admitted that the government undertakes responsibility for the status and position of particular groups, it is inevitable that this control will be extended to satisfy the aspirations and prejudices of the great masses. There is no hope of a return to a freer system until the leaders of the movement against state control are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept.

—F. A. Hayek[1]

* * *

The idea that businessmen are strong defenders of the free enterprise system is one which is believed only by those who have never studied the history of private enterprise in the Western, industrial nations. What businessmen are paid to

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[1]F. A. Hayek, *Individualism and Economic Order* (University of Chicago Press, [1948] 1963), pp. 107-08. This is taken from Hayek's address to the Mont Pelerin Society in 1947.

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worry about is profit. The problem for the survival of a market economy arises when the voters permit or encourage the expansion of government power to such an extent that private businesses can gain short-term profits through the intervention into the competitive market by state officials. Offer the typical businessman the opportunity to escape the constant pressures of market competition, and few of them are able to withstand the temptation. In fact, they are rewarded for taking the step of calling in the civil government.

The government's officials approve, but more to the point, from the point of view of the businessman's understanding of his role, shareholders and new investors also approve, since the favored enterprise is initially blessed with increased earnings per share. The business leader has his decision confirmed by the crucial standards of reference in the market, namely, rising profits and rising share prices on the stock market. No one pays the entrepreneur to be ideologically pure. Almost everyone pays him to turn a profit.

This being the case, those within the government possess an extremely potent device for expanding political power. By a comprehensive program of direct political intervention into the market, government officials can steadily reduce the opposition of businessmen to the transformation of the market into a bureaucratic, regulated, and even centrally-directed organization. Bureaucracy replaces entrepreneurship as the principal form of economic planning. Bureaucrats can use the time-honored pair of motivational approaches: the carrot and the stick. The carrot is by far the most effective device when dealing with profit-seeking businessmen.

Those individual enterprises that are expected to benefit from some new government program have every short-run financial incentive to promote the intervention, while those whose interests are likely to be affected adversely—rival firms, foreign enterprises, and especially consumers—find it expensive to organize their opposition, since the adverse effects are either not recognized as stemming from the particular government program, or else the potential opponents are scattered over too wide an area to be organized inexpensively. The efforts of the potential short-run beneficiaries are concentrated and immediately profitable; the efforts of the potential losers are dispersed and usually ineffective.

The expansion of political power in the market process has been going on in the West for about a century, at least in the modern form of interventionism, starting with the social security legislation of

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Bismarck's Germany in the 1870's. Governments have evolved a strategy by which whole industries or professions are captured by the bureaucratic state. While this strategy is not the only one used, in peacetime it has proven enormously successful. (Nothing, of course, favors political centralization more than war.) I have outlined this strategy by means of the following analogy:

1. Baiting the trap
2. Setting the trap
3. Springing the trap
4. Skinning the victim

Baiting the Trap—Extra-Market Benefits

The politicians enter an otherwise competitive market situation with an offer to promote certain industrial or professional programs. Taxpayers' money is used to finance this program, but it is rare for the potential short-run beneficiaries to reject the offer on these grounds. Certainly, a majority of those who are to be the recipients of the special favor gladly accept it. They see their goals as being part of the public interest, and they view an offer of government aid as being only natural. They see it as their due. Those who refuse to take the special favor risk lower profits in the immediate future, since competitors in the industry or professional association will take the favor. The general attitude is this one: "If I don't take it, somebody else will." As a statement of fact, rather than principle, it is absolutely correct. Somebody else will.

There are several possible forms in which the aid may come. Industrial groups may receive *tariff protection,* which is a tax levied on consumers on both sides of a border over which trade had been carried on or over which it might be carried on in the future. Consumers pay higher prices on both sides of the border. There can be no grants of government economic benefits without someone or some group bearing the costs. A tariff is a tax.

For professional groups, another approach is offered. It is usually in the form of *licensing,* which is a grant of monopoly rents to those inside the protected profession. The profession elects representatives who sit on government boards, or who actually make up the whole board. They can police entry into the profession's ranks by unqualified competitors, meaning those who have not passed certain educational and/or skill requirements established by the board. Most professionals believe that such restrictions on entry are entirely natural for the sake of preserving the present-day standards of practice that the majority of the profession accepts. Like the businessmen, they see these benefits as normal, natural, and altogether beneficial to the public. Re-

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sult: higher fees and fewer choices.

Another way to buy off almost any industry or professional association is by means of *direct grants of money*. The government may simply buy products from a company. It may establish government research grants. It may subsidize certain industries directly. In the case of the great railroads in the United States which were built in the 1860's and 1870's, the government offered millions of acres of land to the railroad companies as an incentive to begin and complete construction.

Perhaps the most popular form of subsidy is *tax relief*. Certain occupations, companies, or organizations receive tax breaks. In an era of growing taxation, this approach has been one of the most effective; the higher the tax level, the more advantageous is tax exemption. The American oil industry was the recipient of multiple tax breaks until quite recently, and they are still substantial.

All of these special favors are adopted in the name of the general welfare of the public. All of them involve the financial incentives for private individuals and firms to conform themselves to the goals set forth by the sponsoring agency, the government. All of them involve the transfer of wealth from consumers and taxpayers to the beneficiaries. All of them involve a temporary suspension of market forces and a redirection of those competitive pressures. All of them necessarily involve a reduction of the sovereignty of the recipients, since they become partially dependent on the government for continued benefits.

In short, the bait is most tempting.

Setting the Trap—Extra-Market Costs

The government is a political organization. Its justification is that it is an agency of the popular will, an agent of the public in its political capacity. It is therefore an agency of public defense. The general public is to be protected from adversaries, including domestic adversaries. In a limited-government system, this means that those who use fraud or violence against their neighbors are to be penalized. In modern interventionist states, the concept of public defense is much broader.

The government cannot lawfully make grants of power or money to any group unless it is in the public interest to do so. In short, the state must police those who are subsidized by the state. The money cannot be used exclusively for the benefit of private citizens. The long arm of the law is at the end of the strings attached to every grant of monopoly power or special favoritism. In theory, every dollar spent by the government must be accounted for, to make sure that the public's inter-

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est is upheld in each expenditure. The result, among others, is an endless proliferation of forms.

The state grants a particular group special favors. But it cannot do so randomly. It must have a purpose, officially and unofficially. The official purpose is not nearly so important as the unofficial purpose. The official purpose is offered to calm the public (which must finance the grants) and to make sure that the judiciary does not intervene. The unofficial purpose is almost universally this one: *the expansion of political power at the expense of private associations.*

Once the grant has been made, the beneficiaries use it for their purposes. The money is spent. Parkinson's Law takes over: expenditures rise so as to equal income. But expenditures are always difficult to reduce, especially in large, bureaucratic organizations. The firms become used to the higher income. The income becomes part of annual forecasts. Managers expect it to continue. After all, they are all agreed that such subsidies are in the national interest. Would the nation (the politicians) revoke their trust? Never! The organization is hooked. It has become dependent on the continued favors, meaning the continued favor, of the state.

Inevitably, one firm or some individual begins to take advantage of his position. He exercises the monopoly grant of power which the state provided for him. He charges a bit too much. He starts running a "factory." Or the firm or individual cuts quality. In short, someone actually begins to milk the system.

The Patterned Response

Some of us have become cynical over the years. We have so often seen this pattern, and the government's equally patterned response, that we have been inclined to come to a startling conclusion, namely, that *the government establishes the system in order that some beneficiary will milk it.* That is a primary purpose of the system of government favors.

Once the pattern of "exploitation" is detected by citizens or government officials, not to mention bureaucrats at any level of government, the response is politically inevitable. Someone calls for the government to do something about the unfair use which is being made of the government's trust. Some firm or some professional must be stopped, and stopped now. The industry or guild must be policed. The consumer must receive protection from the unscrupulous.

The industry leaders naturally resent this intrusion into the semi-free market. They resent the fact that someone is milking the system. That person, for one thing, is trying to get more than his "fair share" of the

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booty. Also, he is making the government angry. He is threatening the continuation of the subsidy. He is violating professional standards.

This appeal to professional standards is very important. The government knows what appeals to make, and this is a good one. (The industrialist is not nearly so alert to such violations, since the agreed-upon standards are not so clear.) The ethics of the professional association are at stake. They must be defended. Yet it is extremely expensive to enforce standards on a colleague. Friendships are at stake. Careers are at stake. And countersuits are at stake. Yet a small percentage of incompetents (usually said to be about 3 per cent by every representative of the professional association) threaten the semi-autonomy of the group. (There is no real autonomy if the government has granted some sort of favor.)

Need for Policing

The government demands that the industry or professional group police itself. The market as a policeman has been compromised by the original grant of power or money. This compromised policeman—the consumers—cannot enforce its decisions inexpensively, given the government grant. So the government calls on the group to police itself, and it draws up certain standards that should be met. The "partnership" between government and professionals grows strained. So the industry or professional group elects (or more likely accepts) certain spokesmen who will "work with" the other partner. This supposedly will insure that the interests of the government and the favored group will mesh, and that the group will continue to receive its favors. On this point, I can do no better than to quote Enoch Powell, the former M.P. in Great Britain. He makes quite clear what the industry can expect.

> They start more than half-beaten, by the very fact that they are, or claim to be, the spokesmen and representatives. It has been their pride and occupation to "represent" industry to the Government. Yet the safest posture for an industry confronted by Socialism would be not to have an organization or spokesmen at all. Instead of being able to coax, browbeat or cajole a few "representative" gentlemen into co-operation, the Government would then, unaided and at arm's length, be obliged to frame and enforce laws to control, manage or expropriate a multitude of separate undertakings—the true picture of private enterprise—with no means of getting at them except the policemen.

Powell is here speaking of an industry which is not on the receiving end of major government favors. If government has the industry on a string, it need not have to resort to the policeman. All it needs to do is to cut off the subsidies, and the whole

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industry is put into a financial crisis. The existence of the subsidies calls forth the "industry's spokesmen." And to quote Powell, "As soon as 'our President, Lord So-and-So' is in a position to talk about what such-and-such an industry 'wants' or 'thinks', that industry is on the road to the scaffold. . . . The Association of these, the Federation of those, present just that one neck to the Socialist garrotter."[2] Once the government uses the bureaucratic garrotte to strangle the representative of the industry who stands in place of all the members, there is no way out except to repudiate the compromiser who stuck their collective necks into the garrotte. If they do not pull out their own necks, they will suffer the same fate.

The professional guild is perhaps the most vulnerable, since the very nature of the "bait," namely, a monopoly position based of guild-policed licensure, creates the very policing organization necessary for the government to impose its will at lowest cost. They can be appealed to on the basis of professional standards and the guild's responsibility to a vaguely defined public, irrespective of the individual professional's ability to satisfy the needs of specific members of the public.

Springing the Trap—Extra-Market Crisis

More cheaters are discovered. The guild waffles. The cheaters continue to operate. The press scents blood and headlines. Politicians scent blood and votes. When they look into the actual operation of the industry, they find more examples of men or firms that have gouged the public, meaning people who are taking advantage of the very system that the government created—an eminently exploitable system. So the reports of cheating and fraud continue. The *reports* continue, but no prosecutions are begun by the government, since nothing specifically illegal has been detected. The guild is powerless, obviously, for the same reason. This means that the reports are going to continue. The guild will still be under pressure to do something to stop the causes of the reports. Finally, new laws are called for to clean up the industry, since the industry is seemingly incapable of policing itself.

For professional associations, this is a disaster. Members have been led to believe that there are standards of practice within the profession. Yet these reports keep hitting the front pages. Their self-esteem is challenged. They begin to wonder

[2]Enoch Powell, *Freedom and Reality* (London: Batsford, 1969), p. 46. It must be understood that Powell is discussing the traditional response of so-called establishment guilds. He does not deny that breakaway splinters from these established guilds might be able to create a minority resistance on the basis of ideology and long-run self-interest.

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what has gone wrong. Maybe the reports are correct. Maybe the government needs to do something—not anything drastic, of course, but enough to clean up the temporary mess and let honest men continue to practice. They miss the point: *the government's task is to alter the practice of the honest men.* The government wants to set all standards and enforce them. There will then be no doubt about who the senior partner is. Bureaucrats want control.

The crisis is not created by the negative reaction of consumers. Businessmen do not find that one morning sales are down 30 per cent because the public has decided to walk away from the fraudulent segments of the industry. Professionals do not find their offices empty for weeks on end. In short, it is not the market which drives home the message to the supposedly crisis-bound industry or profession. The critics come from outside the market, probably from those who seldom use the products or services involved, or if they do, who find the products or services quite adequate in their particular cases. But the crisis is no less real, for the public and even members of the associations perceive it as a crisis. This means that the crisis is real politically. "Politically" is what counts in an era which is socialist or interventionist in its economic outlook.

What about the representatives of the industry? Will they co-operate? Powell answers straightforwardly:

> You bet they will. They are afraid not to. They are afraid of being pilloried by the Government and its political supporters as "unpatriotic" or simply (damning word) "unco-operative." They feel that the eye of the public will be upon them, and they do not like the adjectives which they foresee would be liberally used inside and outside Parliament—and will be, anyhow, before the end of the day. Of course the line of true patriotism would be the opposite to the one they are going to take. It would be to protest, by all means in their power, short of breaking the law, against every kind of error and nonsense as it comes along, and to oppose in their own industry any measure which does not commend itself to their knowledge and experience. But they shrink from this because, although they have no seats to lose and no voters to offend, it takes courage of a special kind—political courage—to outface authority and the popular cry of the hour. These men have commercial courage, and no doubt physical courage too; but facing the political music is something they have neither been trained nor volunteered for. So they play along with the search for an incomes policy, or export incentives, or whatever else it may be.

And, as Powell points out, "The effect is doubly damaging; for it also hamstrings any politicians who *are* prepared to raise their voices in protest." The public thinks it strange that industry representatives have not protested the accusations by the government. Apparently, the lead-

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ers approve of the government's policies. "Thus the co-operators effectively expose the flank of the anti-Socialist opposition and compel it to fall back on positions which are better protected."[3] But not much better protected, he might have added.

Once the crisis is admitted to exist by the leaders, though of course on a much reduced scale—3 per cent of our members, not 20 per cent—the battle is pretty well lost. To clean up that 3 per cent, the government will alter the entire foundation of financing, policing, and pricing of the industry's services. The corruption will escalate, but now it will be a government problem, to be met by even more intervention. More laws can be passed, more penalties handed out, more regulations enforced: the government expands its control relentlessly. The trap has been sprung.

Skinning the Victims—Extra-Market Bankruptcy

There are any number of ways that the government can see to it that the former subsidies now become the strait jacket for the former beneficiaries. The most obvious method of control over professional groups is the establishment of government control boards that will enforce standards and price. The government begins to finance the guild more directly. The former monopoly grant now becomes direct payments. But these payments have no strings attached; they are ropes, or even chains. The government sets fees, allocates equipment, and assigns consumers (clients). The government directs the operation of the association through its captive agents, the profession's representatives. Members of the profession are told what they will be paid, the kind of service to be offered, and the quantity of service to be dispensed.

The government also establishes some sort of quality-control standards. These are enforced by quality-control boards made up of compliant members of the profession and representatives of the public (pressure groups) and the government (bureaucrats). These quality-control boards do exactly that: *control quality*. If quality, meaning cost, starts going up, then they step in and control it. They ration equipment. They set lower standards of care, especially in government hospitals or clinics. They make sure that costs are held down, since the government, not the consumer, is paying the bill. No matter what guild is involved, the government makes sure the "irresponsible quality" is avoided, meaning irresponsibly *high* quality.

The government forces industries to operate at a loss. The classic example in economic history is the

[3] *Ibid.*, p. 47.

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American railroad system. Created by government subsidy, controlled in the name of protecting the consumer, the railroads in the Northeastern part of the U.S., as well as the Midwest, have been strangled to death. The Interstate Commerce Commission was the first Federal regulatory agency in the United States, established in 1887. It was established in the name of protecting the consumer, but as the New Left historian Gabriel Kolko has argued, along with free market economists like Milton Friedman, the result was a freezing out of new competition, since the ICC established rate floors as well as ceilings. So the railroad barons were already in trouble by the late 1880's, despite the millions of dollars in subsidies. The "protection" became a stranglehold, and by the late 1950's, the passenger-carrying railroads were in trouble. By the early 1970's, they were bankrupt. (Long-haul freight railroads are still able to compete.) The government now owns and mismanages many of them (Amtrak, Conrail).

The incomes of the members of the industries and professions that are now directly financed and/or directly policed by the government necessarily fall. Envy is loose in the land. The popular press and television reporters have accomplished their goal. The public will not permit "profiteering." The politicians will not permit it. Prices, wages, and fees are controlled, and work loads increase. Regulatory agencies each claim a piece of the action, and the multiplication of paperwork is endless. The formerly independent producers, who answered directly to the formerly independent consumers, now answer to a multitude of bureaucrats and enraged customers who detect the collapse of productivity on the part of the now-controlled suppliers. Most suppliers lose, most consumers lose, and a real crisis is produced.

Conclusion: Avoid the Bait, Rely on Principle

The answer, philosophically, is to avoid sniffing at the bait. This must be done on principle. It would help if businessmen understood the chain of events which follows from the acceptance of a government subsidy. Yet even if this chain of events is not understood, men should still be able to recognize a violation of basic moral principle when they see it. They should understand that the coercive power of the state should not be used to benefit one group at the expense of another. Such power is inevitably misused, if not immediately, then ten years or fifty years down the road. The precedent is evil; the results following it will also be evil.

The problem, as indicated by

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Hayek's statement which introduced this paper, is that businessmen like the seeming safety of a government-restricted market, at least in the early stages, when they are given some power to set standards and direct production. Businessmen can make very good bureaucrats, too. The market is relentless. It forces men to meet the demands of a fickle public. Businessmen think they can find an escape in some sort of government-business partnership. That is the grand illusion.

Those who are offered the subsidy must say no very early. There are strings attached to government money or power, and they become chains if the subsidies are allowed to continue. It is easier to say no before the addiction process begins, before costs rise to meet income levels. The longer a violation of principle continues, the more difficult the "withdrawal" process becomes.

IDEAS ON LIBERTY

As Government Activity Expands

HISTORY is full of examples of healthy national communities that gradually shriveled up, lost vitality, and perished as the people were bribed by the will-o'-the-wisp of state handouts and fell more and more into the meshes of an all-encompassing bureaucracy.

It is one of the best established laws of history that, as government activity expands, individual activity and enterprise contract, until what was once a vigorous, self-reliant society becomes a hollow, bureaucratized shell, easily cracked by external attack or internal decay. This whole drama of rise, growth, decay, and ultimate fall has been played on many stages in world history, the most dramatic being that of ancient Rome. . . .

Ever higher taxes, an ever-increasing bureaucracy, the growth of an omnipotent state, the paralysis of local initiative, a growing reliance on a faraway central authority that started with some features of the welfare state and ended with full-fledged totalitarianism—here are some very obvious forces making for the decline and fall of Rome. Does it require much exercise of the imagination to see in our own country and our own time some germs, at least, of these ultimately fatal diseases?

WILLIAM HENRY CHAMBERLIN,
"How State Help Destroys Self-Help"

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Henry Hazlitt

INFLATION in One Page

A correspondent, heading a group of "Inflation Fighters," recently sent me a one-page typewritten summary of their case against inflation, and asked for my opinion of it. The statement was sincere and well-intentioned, but as with the great bulk of what is being written about inflation, it was confused in both its analysis and its recommendations.

I wrote approving his effort to "do something," and approving also his idea of trying to state the cause and cure for inflation on a single page, but suggested the following substitute statement:

Cause and Cure of Inflation

1. Inflation is an increase in the quantity of money and credit. Its chief consequence is soaring prices. Therefore inflation—if we misuse the term to mean the rising prices themselves—is caused solely by printing more money. For this the government's monetary policies are entirely responsible.

2. The most frequent reason for printing more money is the existence of an unbalanced budget. Unbalanced budgets are caused by extravagant expenditures which the government is unwilling or unable to pay for by raising corresponding tax revenues. The excessive expenditures are mainly the result of government efforts to redistribute wealth and income—in short, to force the productive to support the unproductive. This erodes the working incentives of both the productive and the unproductive.

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3. The causes of inflation are not, as so often said, "multiple and complex," but simply the result of printing too much money. There is no such thing as "cost-push" inflation. If, without an increase in the stock of money, wage or other costs are forced up, and producers try to pass these costs along by raising their selling prices, most of them will merely sell fewer goods. The result will be reduced output and loss of jobs. Higher costs can only be passed along in higher selling prices when consumers have more money to pay the higher prices.

4. Price controls cannot stop or slow down inflation. They always do harm. Price controls simply squeeze or wipe out profit margins, disrupt production, and lead to bottlenecks and shortages. All government price and wage control, or even "monitoring," is merely an attempt by the politicians to shift the blame for inflation on to producers and sellers instead of their own monetary policies.

5. Prolonged inflation never "stimulates" the economy. On the contrary, it unbalances, disrupts, and misdirects production and employment. Unemployment is mainly caused by excessive wage rates in some industries, brought about either by extortionate union demands, by minimum wage laws (which keep teenagers and the unskilled out of jobs), or by prolonged and over-generous unemployment insurance.

6. To avoid irreparable damage, the budget must be balanced at the earliest possible moment, and not in some sweet by-and-by. Balance must be brought about by slashing reckless spending, and not by increasing a tax burden that is already undermining incentives and production.

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World in the Grip of an Idea

Clarence B. Carson

17. Sweden: Tightening the Screws

THE LOSS of liberty is quite often subtle under evolutionary socialism. So also is the loss of private property, or control over it. Under revolutionary socialism only the purblind can fail to grasp the assault on property and the onset of confinements of the population. The brutality of the attack is too blunt and persistent to escape detection by any except those who resolutely will to ignore it. By contrast, evolutionary socialism is intruded in such a way, particularly under long-established parliamentary governments, that its restraints, confinements, and erosions of the ground of liberty and property are not so readily seen.

This is so in part because as the paternal state takes shape the focus is upon benefits to be conferred rather than the price to be paid, both monetary and in individual rights. There is a broader reason than this, however. It is that the population, or a considerable portion of it, has been induced in advance of the measures to accept certain underlying ideas

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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which make the intrusions appear plausible and, perhaps, even inevitable.

One of the leading ideas is that of the desirability of distributive equality. This is joined, of course, with the notion that all should work together in collective harmony for the general good. When these ideas are linked to the belief that government is the instrument by which this should be achieved the way has been prepared for the introduction step by step of socialism.

The mechanism by which evolutionary socialism has been advanced is democracy. Herein lies a paradox. As popular control over government has increased the control by people over their own lives and affairs has declined. The paradox is more apparent than real. That anyone should find it strange that people's control over their lives declines as their participation in government increases is the result of one of the most impressive selling jobs in all of history. In the latter part of the nineteenth and in the twentieth century a tremendous selling of democracy took place. Democracy was advanced as the great cure for the ills of the world: if all peoples of the world would only adopt and practice it, a worldwide prosperity, harmony, and peace would ensue. The massive bloodletting which is now known as World War I was even described as a war to make the world safe for democracy. Democracy would then, it was claimed, make the world safe from wars.

Coincidental Developments

These ideas gained plausibility from the fact that the development of democracy occurred more or less simultaneously with other developments in the nineteenth century. Such causal connection as the spread of democracy had with these other developments was almost certainly accidental, but it did not appear so at the time. The other nineteenth-century developments to which I allude were constitutionalism, the establishment of individual liberty, the casting off of feudal restrictions and the securing of private property, and the tendency to negotiate agreements among nations rather than going to war to settle disputes. Under these conditions trade expanded greatly, industries developed on an unprecedented scale, population increased dramatically, and prosperity began to become more general than ever before. It was under these conditions that Sweden became an industrial and prosperous country, as noted earlier.

In retrospect, there appears to be little enough reason to connect these developments with the spread of democracy. True, these developments occurred first generally in countries which had representative

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or popular government, that is, in Western Europe and America. And, there was undoubtedly a temporal connection between representative government and the other developments. It was this. The thrust to remove feudal and mercantile restrictions, to extend liberty, and to restrain and limit government was generally expressed through parliaments (legislatures, congresses, or whatever they might be called). This was especially so of the elective branches of parliaments. As a result of this, representative government began to be thought of as the champion of liberty.

The connection was temporal, as I have said. For the historical moment, as it were, representative governments curtailed the power of kings and limited government. The foundation of liberty was in constitutionalism which was itself based on the natural law philosophy. The practical defense of liberty lay in the separation of powers within government, a separation that would have the tendency to restrain and limit government. Popular or representative government can, at best, only reflect the prevailing mood among the populace, whatever that may be. If that mood is libertarian, representative government may act upon it; if it is totalitarian, representative government can do little more than be its agent.

Even so, the thrust toward democracy got a tremendous boost from this temporal, and temporary, connection. Champions of democracy pressed to have governments more and more representative, to extend the franchise ever more broadly, and to having all political decisions made on the basis of popular support. The practical effect of this was to concentrate all power in the legislatures and to negate the restraints upon government that rested upon a separation of powers. In limited monarchies, such as Sweden and England, the monarch became more and more limited, as did the hereditary nobility generally, and the representative portions of parliaments triumphed.

Democracy Is Mob Rule

The champions of democracy ignored the fundamental nature of democracy, a wealth of historical experience with it, and a two-thousand-year-old reasoned argument against it. They made it an unquestioned good and a thing to be desired above all else.

Whatever the merits of representative government, they do not extend to a thoroughgoing democracy. It is an ancient insight that democracy is mob rule. True, the mob-rule feature is moderated so long as the populace acts through representatives; but representation is an inhibition on democracy, not a part of its essential character. It was Greek

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democracy which sentenced Socrates to exile or death. It was the mob which shouted to Pontius Pilate that Christ should be crucified. It was the Roman mobs who turned their fickle support from one conquering general to another that aided and abetted the horrors of the Roman Empire. "Democratic" New England was the most intolerant locale in the American colonies.

Democratic socialism has attempted to legitimize a modified mob rule. It has done so by attributing to democracy virtues it does not possess and ignoring its implicit vices. If democracy were not modified by representation and rules which hold it in check it would be tyrannical. As it is, it is a compelled conformity, a conformity which takes away individual liberty and intrudes upon private property.

It is ironic that so many intellectuals should have championed social democracy (or democratic socialism or collectivized democracy, whatever describes it best). Modern intellectuals developed an early distaste for social conformity. Ralph Waldo Emerson said that society is at war with every one of its members. His meaning was that society is trying to settle us into a groove—make us conform—that is contrary to what each of us as an individual would wish to be. Society became and remains the villain for many intellectuals. It operates upon the basis of tradition and bids those within its ranks, so to speak, to conform or suffer rebuke, ostracism, or whatever punishments are within its power. And conformity has been the *bête noire* of intellectuals.

Yet many of the same intellectuals who have condemned conformity to society have been vigorous promoters of democracy, even democratic socialism. They have promoted a compelled conformity by the use of government power over the conformity induced by influence of society. They avoided the onus of this by attributing goodness to democracy and claiming to identify society with government by way of democracy. If conformity were the evil, it might be supposed that compulsory conformity would be worse than elective conformity.

Conformity to Their View

Actually, most intellectuals are no more opposed to conformity than are the generality of people. Each of us harbors in his breast the desire to have others conform to his will. What has troubled most intellectuals has not been conformity but rather kinds of conformity to which they are opposed and over which they have no control. Conformity to society, its norms and prescriptions, has been, in their view, irrational and backward. By their lights, they would substitute for conformity to tradition a conformity to reason, a

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reason that by their conceit they are uniquely equipped to divulge. The idea that has the world in its grip is a vision of just such a conformity.

The role of democracy in this needs also to be grasped. The theory of democracy holds that democratic government would actuate the will of the people. If this were the case, it is difficult to see how government action would be brought under the control of intellectuals. What is more likely, however, is that there is no such thing as a "will of the people." True, majorities can often be obtained, either for men, or on one side or another of issues, especially if there is only one choice to be made. But the getting of a majority depends on how the issues are stated and the personal appeal of candidates. In short, the statement of issues and the formulation of the candidate's opinions are crucial. These are pressure points for manipulating decisions in democracies. They are the points occupied by intellectuals. Democracy, then, is the means by which intellectuals would exercise control over and produce the kinds of conformity they desire.

It has been made to appear that, by voting, the individual increases his control over his affairs. This is only the case, however, if he successfully votes to reduce government involvement in his affairs. If he votes to increase government action, as he does if he votes for the programs of gradualist socialism, he votes to diminish his own control over his life and affairs. He may be induced to do this by the promise of benefits, benefits which will free him from many of his individual responsibilities. But when he does this he is only voting himself greater responsibility for others and less control over how it will be exercised.

Democracy in Sweden

Sweden is one of the most democratic countries in the world. Not only is there universal suffrage but also a great variety of consultative and mediative mechanisms by and through which people may express themselves. There is even an official known as an Ombudsman who has the power to penetrate and hold the bureaucracy to account. No group, at least organized group, is apt to be ignored when some decision is made which would affect its interests. Collective decisions are a la mode in Sweden, and the Swedes have applied their passion for orderliness to see that as little as possible is done without consulting the collectivity. All of which is just another way of saying that the Swedes have lost much of their individual liberty and control over their lives and property. The screws on the individual which make him conform to the collective will are continually being tightened.

One of the most obvious ways in

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which Swedes individually have lost much of their control over their affairs is by way of taxation. On the average, Swedish workers work over forty hours per week. According to reports, they work hard when they work; and pay in much of industry is on a piece work basis, which is certainly conducive to productivity. Local and national income taxes take away about a third of their pay on the average. Taxes rise sharply on those with higher incomes and go to as much as 71 per cent. The well-to-do also pay a "wealth" tax on top of the regular income, but there is, mercifully, a ceiling of 80 per cent on the combined national and local taxes on income.

A general sales tax of 10 per cent on the cost of items bought prevails. In addition, unusually high taxes are levied on gasoline, liquor, beer, cigarettes, and chocolates, among other things. Technically, the pension fund is financed by employer contributions. In fact, of course, this payment is a wage cost and is a reduction of employee wages or employer income or both. This last aside, however, it is not uncommon for a workman to lose 50 per cent of his pay to direct taxes. Then there is the ubiquitous and invisible tax gatherer—inflation—, and Swedes have been hard hit by it as have most other peoples. Of course corporation profits are taxed, taxed, that is, if they are not placed in an investment fund, taxed at a rate of up to about 53 per cent of combined national and local levies.

It should be clear that the individual loses personal control over all his money taken by taxation, whether direct or indirect. According to social democratic theory, the control over that portion lost by the individual passes over to the collectivity. The matter is not so simple, however, for so long as there is a choice people are by no means united as to how or whether the money should be taken and spent. For example, in the late 1950's, a major controversy developed in Sweden over the proposal by the Social Democrats for a supplementary pension program. Following a national election in which the program was a major issue, the legislature passed the measure by a vote of 115 to 114. This was surely not the expression of a collective will but the imposition of a measure on the whole populace by the narrowest of majorities.

The Housing Shortage

Probably the best known infelicity of Social Democratic Sweden is its housing shortage. It is a good example, too, of how the Swedes have lost effective control over their affairs and are thwarted in their aims by government policy. There are two aspects to the housing shortage. One is that there is a shortage of housing in places where it is wanted. The

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other is that the dwellings available are remarkably small. The majority of city dwellers live in apartments, and these generally run to 2½ rooms each. One-fourth of urban dwellings have but one to two rooms.

Both kinds of shortage are a result of government practice and policy. Rent controls over many years have kept rents below what they would be in a free market. Hence, private builders have seen little advantage to be gained from building places for rent. A remoter reason for the shortage of houses has been the rapid industrialization in the twentieth century. As a result more than 75 per cent of Swedes now live in towns and cities. There is reason to believe that this industrialization and urbanization has been accelerated by government policy which favors capital expenditure.

It looks, too, as if the government were deliberately going about creating a housing shortage. Much urban housing has been demolished, under the claim that slums were being cleared away, but a goodly amount of this housing was quite habitable and much more commodious than the housing built to replace it. In any case, government determines what housing is provided. As one writer says, "The government and local authorities erect a third of all new dwellings, and almost all housing projects are backed by government loans. It is the government that decides on the number of housing starts each year, enforces building standards, and subsidizes pensioners and low-income families to about 25 per cent of their rent."[1]

It is a result of government policy that apartments are so small. One aim of this policy is egalitarian, to see that every Swede has a "quality" dwelling. To put it another way, if everyone cannot have a large house, then no one should have one. But the matter goes deeper than that. The government has, after painstaking calculation and consideration, decided what sort of housing people need. It has decided what size and what components a kitchen should have. It has decided that central heat, double glazed windows, and garbage disposal chutes are needed rather than more space for rooms. It has set the kind of limitations on what is to be included so as to make it expensive to build very small accommodations. Large families are almost unthinkable in the postage-stamp houses, and Swedes must long for summer when they can get out of the stifling atmosphere of their houses into the open spaces.

Declining Population

Sweden is in a squeeze from the make-up of the population, and no relief is in sight. The basic problem is that a larger and larger percentage of the population is reaching retirement age. The low birth rate is

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not replenishing the population. In consequence, a smaller and smaller work force is having to carry the burden of feeding and caring for that portion of the population that is retired. The increase of productivity per worker might make it possible to continue for a while, but it should be noted that this could only be accomplished by denying to the workers any benefits from the increased productivity.

Moreover, if earlier analysis is correct, government policies already encourage much wasteful capital spending, spending which may indeed increase the productivity of workmen but which requires much more work to replace the equipment being retired. About the only area in which the Swedes could move to enhance their productivity would be to use all the time that goes into social planning, consultation, negotiation, and other such activities for productive purposes. But if they were to do so it would be to abandon democratic socialism.

The Swedes have invested a great deal of intelligence, ingenuity, and determination into making their variety of socialism work. Of this, there should be no doubt. They have done so under as near optimum conditions as are likely to be found on this planet. They have avoided participation in wars that would have cost so much and returned so little of a material character. They had a homogenous population which should be ideal for collectivism. They have benefited much from international peace. They have avoided internal revolution, or anything approaching it. They have modernized with great vigor, taken advantage of specialization of labor, and promoted capital accumulation and investment with a will.

A Mechanical System

The result of this effort and ingenuity is this: The Swedes have probably come as close to creating a materialistic and mechanical system as it would be possible to do. Does it work? It works as well, and as ill, as a materialistic and mechanical system is likely to do. It works to inhibit the able and adventuresome and to reward the less talented and least venturesome. It works to produce a modernistic sameness which may have sweep to it as viewed from a distance but is stifling from inside. Office space is determined by the amount reckoned to be enough to keep the worker from being overcome by claustrophobia. It works to stifle every grain of idealism that ever was raised by socialism.

The Swedes are a proud and stubborn people. They have labored for a lifetime to establish their variety of socialism and to make it work. If they are aware of the loss of liberty, they are not given to admitting it, or

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that they miss it. If loss of control over their property troubles them, they do not make much over it. Businessmen are acclimated to the manipulations by which it is often possible to operate in a thoroughly politicized economy.

Is the natural progression of gradualist socialism toward tyranny? One way to answer this question is to say that from its outset it is in one sense tyrannical. It is tyrannical in that it makes the individual conform to the majority or collective will. It is tyrannical in that it forces the individual into the mold of experts, social planners, and the lowest common denominator of the popular will. It forces the individual to deny himself and to bow to the will of others. It forces the individual into a life of continual compromise, compromise between the way he would do something and what the law requires, compromises between what he wants done and what others who have managed to get behind them the power of government want done.

Denial of Conscience

The tendency of democratic socialism is to make the individual deny himself in all those ways in which he is unique, different, or peculiar. It may be the worst tyranny of all, for it denies the individual conscience, denies it by not allowing it room for operation in the ordinary warp and woof of life. To be forced to yield to the collective will in the ordinary decisions of life is to deny to the individual a significant portion of his humanity.

The shift from living under the social influence of tradition to living under the compulsions of collectivism may occur so gradually that the individual is hardly aware of it. It is a crucial part of the theory and practice of gradualism that this should be so. This has been especially the case in a country like Sweden where the outworks of tradition have been preserved while their inwards have been eroded away. The church still stands, of course, but it stands for very little. The home has not been outlawed, but many of its functions have been subsumed by the state.

The moral and spiritual dimensions of life have been severed from their roots in social democratic Sweden. This has not been done by outlawing them; Swedes have substantive religious freedom and may spend about as much time as they will contemplating the domain of the spirit. It is rather that an order of priorities has been established—priorities that are material in character—which leaves little room for the development of moral and spiritual beings.

Some of the most sensitive Swedes have given expression to the otherwise stifled longing for a spirituality

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to life. Dag Hammarskjöld lived an outward life that conformed well to social democratic prescriptions, suppressing, it may be, his deep spirituality. "It was only after his death that it was revealed how much . . . the quietly competent, serenely self-confident diplomat, was really a mystic who had worked out a personal philosophy about the idea of life as a sacrifice." His posthumously published diary, *Markings,* which became an international best seller, was, by his own account, "a sort of 'white book' on my deliberations with myself—and God."[2] He left no doubt of what he lacked and longed for when he said, "I ask the impossible that life shall have a meaning. I fight the impossible that life shall have a meaning."[3]

Good vs. Evil

Ingmar Bergman is surely the best known of Swedish film makers. He enjoys an international reputation. But there is a dark and morbid character to his films, depressingly so, it is fair to say. Bergman chooses to bare the souls of his characters, and to have them troubled with the ancient problems, such as those of good and evil. Bergman has attributed these preoccupations to the fact that he grew up as the son of a minister.

"When one is born and reared in the home of a minister," Bergman has said, "one has a chance at an early age to catch a glimpse behind the scenes of life and death. Father conducts a funeral, father officiates at a wedding, father performs a baptism, acts as a mediator, writes a sermon. The devil became an early acquaintance, and, in the way of a child, it was necessary to render him concrete. . . ."[4]

Probably it was Bergman's childhood background that acquainted him with his themes, but his near obsession with them as an adult almost certainly stems from the spiritually deprived character of Swedish life.

In any case, he has given us a hint in his account of his youth of what social democratic Sweden has very nearly smothered. Birth, baptism, marriage, and death, these are great events of life which ancient religious ritual celebrated in their spiritual dimensions. It is most difficult to know God for those who have not known a human father in all his dimensions. It is difficult to know love for those who have not experienced the sacrificing love of a mother. It is difficult to separate the sacred from the profane for those who have not actively participated in the communion of a religious congregation. It is difficult to know concern and care if one has not witnessed it evinced in the help extended from neighbor to neighbor. It is difficult to develop morally if one is denied individual choices and saved from responsibility for such as he

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makes. It is these things that the paternal state eviscerates or deactivates.

Broken Relationships

The paternal state tends to mechanize and diffuse basic human relationships. It is doubtful that the baptism of a newborn infant can compete with a check from the state awarded to the mother. Marriage is an inessential relationship to the Swedish state, for if there is no registered father of the child the state will make special provision to take care of it. The paternal state becomes a kind of surrogate father of all children. So far as the state can do so, it removes the element of sacrifice, if not love, from motherhood. Neighborhood and community lose meaning by being nationalized and administered by a bureaucracy. State appropriated money replaces compassion and concern. Morality and spirituality survive in a virtual vacuum; their functions have been taken over by the omnipresent state.

Socialism diffuses concern so broadly, so far from the natural relationships of kinship and proximity as in neighborhoods, that the benefits the state hands out take on the abstract character of rights rather than being suffused with warm human concern. Care for aged parents may indeed be a burden for children, but it is not less so for being nationalized. It is only that when it is nationalized it is bereft of much meaning as it had. The birth of every child is a cost to the taxpayer. The retirement of any person is a burden to the working population. All this without benefit of being warmed by a baby's smile or recalling the tender moments of childhood with one's own parents. It is cold, mechanical and devoid of any but the relics of humanity.

But let us return to the question of tyranny. Will gradualist socialism proceed to other and more easily recognized forms of tyranny? Although there is little enough historical evidence on which to base a conclusion, there is reason to believe that it may, though how it will come is still a matter of contingency. One way it may come is by way of the onset of barbarism to which socialism tends. Liberty, in practice, depends upon an underlying respect for the rights and private realm of others. It is just this that collectivized democracy is continually assaulting. Barbarity is a logical result of the dehumanized relationships discussed above.

A Displaced Concern

Care in equal measure for all the people of a nation posits a godlike concern which is beyond most mortals. When parents cease to care for their own children, and children for their aged parents, they do not extend that displaced concern to all

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children and to all aged parents. Much more plausibly, they are not much concerned about any children or old people. The trend toward barbarity is already apparent in loss of concern for unborn babies and in the shunting of old people into special "homes." Neither life, liberty, nor property are apt to be much protected when concern and respect are sufficiently and widely lost.

There is another way in which democratic socialism may prepare the way for a broader tyranny. Social democrats know how to deal in a variety of ways with recalcitrant individuals. They can arrest them, levy penalties against them, deny them favors, send them to prison, or even put them in mental institutions. But they have only one approved way of dealing with groups or collectives, whether these be nations, labor unions, youth organizations, or retirees. That approved way is negotiation. The gradualist state does not negotiate with individuals. It makes them conform or suppresses them. But groups are not to be suppressed; concessions are to be made to them, and they are to be brought somehow into amiable accord with other collectives.

Sweden is the example, par excellence, of this penchant of socialism to negotiate peace among groups. The country enjoys an unusual amount of labor peace. Despite the fact that unionization is widespread, and that employers are organized as well, strikes are rare. (All these organizations are so closely regulated, however, that there should be doubt as to the extent to which they are free.) In international relations, the Swedes have both promoted international negotiations and maintained a posture of neutrality. Swedish diplomats have long been famous for serving as mediators.

Revolution Dominates

Revolutionary socialism, particularly communism, poses a continual threat to evolutionary socialism. While communists do sometimes negotiate, their methods in general are not such as are conducive to mediation. Far from professing to mediate differences among classes, they seek to suppress most classes. They accept warfare among classes as the norm until such time as all "exploiting" classes are put down. Moreover, revolutionary socialists stand ready at all times to build upon the inevitable frustrations of evolutionary socialism.

It has been noted already that idealism can hardly survive socialism. The reason for this is that once socialism is in power it bogs down in compromises and in the continual pressures of groups for economic advantage. Revolution holds out the prospect of a quite different scenario, of an end to the

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struggle, of a final victory of the righteous, and of an eventual perfect justice. The social democratic bent to mediate and negotiate among groups unfits it for dealing with revolutionaries. It does not will to suppress them, and given this weakness the time arrives, or may arrive, when it cannot.

In any case, the love of liberty is a diffuse thing. There is much evidence to support the view that people are as readily enamored of freedom from responsibility as they are of individual liberty joined to personal responsibility. They can be and have been enticed to support measures which reduce everyman's liberty by collectivizing responsibility. That way lies tyranny, of one sort or another, perhaps all sorts.

Sweden represents but one variety of evolutionary socialism. It is time now to examine another, one much nearer home.

Next: *18. The United States: A Republic and Gradualism*

—FOOTNOTES—

[1]Donald S. Connery, *The Scandinavians* (New York: Simon and Schuster, 1966), p. 296.
[2]*Ibid.*, p. 290.
[3]*Ibid.*
[4]*Ibid.*, p. 436.

IDEAS ON LIBERTY

To Do Good for the People

WHEN a person gains power over other persons—the political power to force other persons to do his bidding when they do not believe it right to do so—it seems inevitable that a moral weakness develops in the person who exercises that power. It may take time for this weakness to become visible. In fact, its full extent is frequently left to the historians to record, but we eventually learn of it. It was Lord Acton, the British historian, who said: "All power tends to corrupt; absolute power corrupts absolutely."

Please do not misunderstand me. These persons who are corrupted by the process of ruling over their fellow men are not innately evil. They begin as honest men. Their motives for wanting to direct the actions of others may be purely patriotic and altruistic. Indeed, they may wish only "to do good for the people." But, apparently, the only way they can think of to do this "good" is to impose more restrictive laws.

BEN MOREELL, "Power Corrupts"

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Kenneth McDonald

RISK AND PROFIT versus SECURITY

FROM the moment of birth, life is a risky business. The search for security is instinctive. Where the parents sought it in religion the children seek it in the state.

Because they do, the state has grown, its growth fueled by revenues that increase every year. The transfer of wealth from individual hands, which created it, to public hands which merely redistribute it, achieves another kind of redistribution: the number of consumers is increased; the number of producers diminished.

The process is cumulative. Tax-funded services which people regard as "free" are partaken of liberally on that account. Nor are they recognized as an element of compensation. Rather does the mounting tax deduction from the pay packet cause demands for more pay. But pay must come from wealth, the sum of which is declining.

Underlying the whole process is the most insidious tax of all: inflation. The lack of political courage to tell the truth, to reveal the absence of a free lunch, impels politicians either to borrow money or to enlarge the amount of it in circulation. Whichever device is resorted to—often both at the same time—the future is mortgaged to pay for the present.

Indexed pensions, whose projected growth to astronomical figures alarms every self-respecting actuary, are sops to a people whose currency inflation must destroy.

At 7 per cent annual inflation,

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1977's modest $15,000 salary would grow to $58,000 in 1997 on cost of living allowance alone. If a further 7 per cent were added each year for merit pay or fringe benefits, it would grow, by 1997, to $201,000. Not wallets, but wheelbarrows.

As more and more power—the power to distribute wealth—is transferred to the state, people look increasingly to the state as a source of investment.

State Ownership in Britain

An advanced stage of the process may be witnessed in Britain, where a state-owned National Enterprise Board was formed in 1975 to rescue major enterprises that had fallen into decline as a result of the state's encroachment. How insidious the process may be judged by the fact that *The Economist,* hardly a radical journal, records the development with a perfectly straight face.

A report in the issue of May 7, 1977, concludes with this sentence: "Intervention leads to ownership but much of it—inevitably under any government, let alone one eager to save jobs at almost any price—is riskier than a commercial company should be expected to undertake."

Risk, upon which was founded the commerce that took Britain to greatness, is now, in her decline, too risky to undertake.

The welfare state, which seeks to conceal the realities of death and misfortune, must cushion the risks that attended the creation of the wealth it has dissipated.

Canada, which is said to be trailing Britain by a scant five years, is scattering the seeds of a National Enterprise Board of its own. Venture Investment Corporations promise rain to end the equity drought.

Not that VICs are bad in themselves. Within a too-pervasive state they offer investors the incentive of relief from the state's tax burden. But it is because the state has intruded too much that the relief must be offered. VICs are a palliative, not a cure. The vehicle their initials remind us of will not carry us very far.

Just as a compost heap turns a garden's residue into food for more produce, so must the wealth creating process turn its own residue to the creation of more wealth.

Its residue is profit.

How profit is used, and of what it consists, are bones of perennial contention. Politicians of every stripe have worried them to death. For special interest groups who would shift the blame for their own depredations, profit is the scapegoat.

Some are prone to regard it as a surplus, as a bag of money that the owner of a business takes away to spend on him—or herself—while the wage earners count out their pennies for bread.

Others look at a business in isola-

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tion. The financial results for one year, or one quarter, are pasted on the wall like specimens in a laboratory. It is as if they had stopped a film on one frame and were trying to determine, from that frame, what had happened before and what would happen next.

But (except by going out of business) the business cannot be stopped. Every minute of the twenty-four hours, seven days a week, it is ticking away.

Interest costs on borrowed financial capital (bonds and debentures); dividends on equity capital(shares of common stock); costs of wages, of vacation pay, of future pensions for those working and of past pensions for those retired; costs of machinery that is wearing out and must one day be replaced; costs of raw material or other supplies needed to make the product; costs of transportation, of heat and light and power; costs of telephone and mail; costs of accounting; costs of interpreting and adhering to government regulations; costs of calculating and paying out taxes to three levels of government; costs of research into better ways of making the product and of developing new ones; costs of advertising and sales. It never stops.

The Urge to Be Independent

Think of the process as a film, with people working in offices, or operating machines, or standing before drawing boards, or selling the product to customers, and there is no sequence where someone walks out the door carrying a bag marked "surplus."

Yet there is a residue, something left over, a margin of some sort. Otherwise the process would stop.

Does everyone engaged in the business—owners, employees, investors—give a little more than they get back? In a way, they do. They give energy, and initiative, and ingenuity and, no doubt, some enthusiasm. They provide part of the economic energy that keeps the film turning, the business going. But not all of it.

Where did the rest come from?

It stemmed from the urge to be independent that is present in every person who has the idea for a business. Call him or her Smith.

Smith was convinced the idea would work. Whether a product or a service, it could be sold. There was a niche for it in the market.

To get it to market, Smith needed money (the financial capital) in order to acquire the office and office equipment, or the buildings and machinery (the productive capital) to start the thing off.

Smith was prepared to take a risk, but not many Smiths have either enough savings of their own, or enough of anything in the form of collateral to borrow the money—the risk capital.

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Banks are not in the business of taking risks. They have a responsibility to their depositors. Governments are not supposed to take that sort of risk, either, because they have a responsibility to taxpayers. Unfortunately that does not always stop them from trying.

Someone, or a number of people, had to be found who would be willing to put up the risk capital to get Smith started. From their own experience in business they would examine Smith's idea and if they thought it would work, and if they thought Smith was a sensible person, they would put up the money.

We are back at risk.

Knowing that out of ten chances eight might fail and only two succeed, they must be assured of sufficient return from the two successes to make up for the failures. The return may be a long time coming.

The function of equity money is to carry the risk during the critical period from conception through business plan and start-up to profitable operation. During that period the equity investors get no return on the money they risk. But they have one vital quality which no chartered bank or government department or indeed government agency could inject: it is their own money at risk and they have a very intimate and personal reason for wanting the business to succeed. That quality is balanced by another: a readiness to cut losses and stop, which governments lack because there are always political reasons for pouring good money after bad.

A curious feature of new ventures is that the instigators—the Smiths—turn to debt financing rather than equity. Possibly they feel more comfortable dealing with a bank. Banks are in the business of making people feel comfortable about borrowing from them. No doubt that is why they inhabit such splendid buildings.

But to secure a loan there must be collateral. Usually it is the building, or the machinery, or both—the productive capital that the business needs to function. Later, the business will need more money to tide it over between getting the orders, making the products and getting paid for them. It is at that critical point, when there is no more collateral, that many businesses either fail, or are taken over by an established competitor.

Yet the reason many owner managers give for preferring debt over equity is a reluctance to surrender, or even to share, ownership.

Risk-Taking by Individuals—A Dying Art

But the people who are willing to take a chance on backing them—the equity investors—must also be assured of at least an even chance of a return on the money they're pre-

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pared to risk. Otherwise they won't risk it. That is the crux of our problem. The misconception of profit has become so widespread, and the supporters of government planning have been so influential, that risk-taking by individuals is a dying art.

Instead of risk-taking being encouraged, it is discouraged. In an age when the schools and colleges are training Canada's young people for pensionable jobs in public or private bureaucracies, anyone who takes risks is regarded as a freak. The atmosphere, the social pressures, not least the tax system, all are opposed to risk-taking.

Without equity, the main source of creating wealth and jobs is drying up.

Those who advocate central planning of the economy are drawn by the mirage of state-fed security. Central planning and risk-taking are poles apart. The more the state plans, the harder it is for individuals to make plans of their own.

To make them, they need to know, in advance, what the ground rules are. Smith, and the equity investors who would put up the money, need to know, in advance, what the costs will be during the crucial period between starting up the business and reaching the break-even point at which revenue draws level with expenditures and begins to draw ahead. That period might be as short as one year or as long as five depending on the size and complexity of Smith's business.

In a time of stable prices, of low taxes and, consequently, of a low level of state intervention in the economy, estimating costs during that period would be relatively straightforward—little more than a projection of current costs against the estimated rise in business volume. Today, however, prices are unstable. Quality and availability of labor are serious problems, taxes are high—all resulting from state intervention. Worst of all is the uncertainty.

Clearance Procedures

So many powers have been delegated to regulatory boards and commissions of one kind or another that it is impossible to forecast. One thing is certain. Smith's planned activity would have to be cleared with planning boards in any or all of the three levels of government. At each step the decision would be based not on broad rules laid down by parliament but on variable rules which, in the opinion of the inspectors or commissioners or regulators, were appropriate to the circumstances at the time of application.

Even if Smith and company overcame the first field of hurdles, quite likely they would find themselves opposed by environmentalists or other publicity-seeking special interest groups, often subsidized by

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the state, whose ambition is to occupy center stage at every opportunity.

If profit is both spur and fuel, if profit is to supply the economic energy to keep the system going, it must be open to all comers. Otherwise its essential ingredient—the limitless supply of human ingenuity—will be shut out.

Yet what do we find? Profit is recycled within a closed system. The banks and other financial institutions which depend on a safe return to protect their depositors' and their own investments will invest their funds safely, i.e. in the country's leading, well established enterprises. Most of them are regulated, to varying degrees, by the state. Their return is limited by taxation and inflation. If it should appear to rise above a "reasonable" figure in any one period the enterprises will be attacked from all sides.

The Final Security

Institutional investors, the enterprises they invest in and draw returns from, the governments which control them both—all three are engaged in a ritual dance from which the individual investor is excluded.

At those modest rates of return he cannot afford to enter the game. But without his contribution of energy, of enthusiasm, of willingness to risk and to wait, the game will slow down, as it has slowed down, until it is not a game at all, but a funeral procession.

Death, which shares its certainty with taxes, is also the final security. The search for security, which gives rise to taxes, drives away the risk which accompanies all creation.

The generation of risk capital is no different from any other generation. It must come from its own kind.

IDEAS ON LIBERTY

What Pulls Up Wages

THOUGH labor is a commodity, the price of which is subject to supply and demand, it is a unique commodity. It enters into every kind of production, and as productivity increases, the workman shares in the increase.

The hope of profit in new and growing industries forces employers in those industries to bid up for labor. This force has caused them to bid millions of people from off the farms, from out of depressed areas and out of domestic service, and even from across the Atlantic. The best and the most new jobs are normally found with the most optimistic employers who have the strongest hope of profit. And it is such labor markets that over the decades have steadily lifted wages.

HAROLD M. FLEMING, *The American Achievement*

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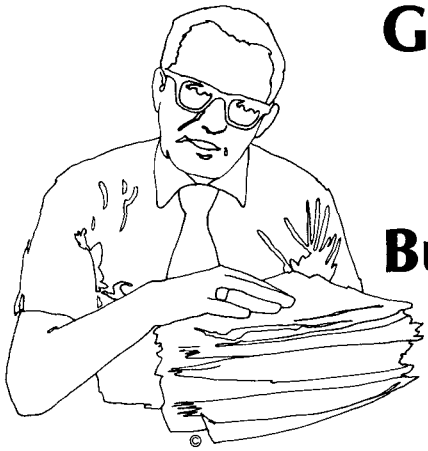

Government Regulation and Business Management

John Semmens

A "managerial revolution is now underway, a silent bureaucratic revolution, in the course of which much . . . of the decision-making in the American corporation is shifting . . . from the professional management selected by the corporation itself to the vast cadre of government regulators who are influencing and often controlling the key managerial decisions of the typical business firm."[1]

The State's invasion of managerial prerogatives has occurred on virtually every conceivable front. The government has not shied away from deciding *what* shall be produced (i.e., tobacco shall be produced, even subsidized, but cigarette commercials shall not), *how* it shall be produced (i.e., electricity shall be generated by burning coal, though a few years ago power companies were induced to switch from coal to oil for environmental reasons), *who* shall produce it (i.e., between firms via monopoly franchise grants and within firms via affirmative action programs), *where* it shall be produced (i.e., by granting offshore leases in the Gulf of Mexico, but not off the Atlantic Coast), and even *why* a product shall be produced (i.e., air bags for automobiles shall be produced for passenger safety regardless of whether the consumers want them or not).

This invasion has not come as the result of one massive onslaught. Rather, it resembles more a war of

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attrition in which business has been gradually surrounded, its perimeter growing smaller by degrees. Perhaps if the government lunge into capitalist territory had been concentrated and overt, the business community could have devised a better defense. Instead, like the frog that never jumps from water brought slowly to a boil, business management has been unable to decide at what point the destruction of managerial options will be fatal to the business enterprise.

Unbounded Authority

The power of the federal government to regulate business derives from the U.S. Constitution.[2] This provision allows the U.S. Congress to regulate commerce between the states as well as between the United States and foreign entities. The scope of this interstate commerce authority is broad enough to cover virtually any economic activity. In a famous case in 1942, *Wickard versus Filburn*[3], the distinctions between commerce and manufacture or agriculture and between intra- and interstate were dissolved when the Supreme Court determined that any goods or services which might be in competition with goods and services actually crossing state lines, were subject to federal regulation.

These powers of regulation are exercised primarily by executive agencies which in many cases have taken on a life of their own. Congress's authority to delegate such broad powers was upheld by Supreme Court decisions in 1939.[4] (It may be a matter of significance that these key court decisions were rendered in agricultural disputes. Corporate business showed little resistance to the increasing role of government in economic matters.) This delegated authority is typically a carte blanche grant of power to do all things necessary to insure that the regulated environment is "just and reasonable."[5] In case any loopholes are left in the federal regulatory net, most states have established supplemental regulatory agencies of their own. In Arizona, for example, the State Corporation Commission is empowered to "do all things . . . necessary and convenient" in exercise of its regulatory mandate.[6]

Institutionalized Incompetence

Theoretically, the expanding power of government regulations ought to be making the tasks of business managers easier. The consolidation of decision-making power within government agencies capable of perceiving the broader requirements of the national interest has, indeed, been one of the selling points of the regulatory philosophy. Following the grand plan of the central government ought to be a simple matter for business managers.

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Such, however, is not the case. Regulatory guidelines have been unclear. The "just and reasonable" dictum has proven so elusive that the courts in reviewing regulatory actions have dispensed with the necessity to define the phrase[7], that the determination of what is "just and reasonable" is completely at the discretion of the regulatory agency[8], and that the "burden of proof" is a matter for the regulators to decide on a case-by-case basis.[9]

Erratic changes in regulatory policy defy prediction. Inflexibly enforced conformity robs the business system of its ability to plan for the future and adjust to changing circumstances. As a consequence, the economy is beset by a continuous series of crises, of crash projects, drives attempting to cope with the most immediately observable or fashionable problem. Such a management technique is, according to Peter Drucker, "an admission of incompetence."[10]

Induced Indolence

Nowhere has the cost of this system of mismanagement been more dramatically portrayed than in the rates of return on investment. The government-business collaboration (or partnership, as some are wont to call it) has succeeded in increasing economic uncertainty, raising the cost of meeting consumer wants, and consuming scarce resources.

Uncertainty is, of course, an inescapable circumstance of any dynamic environment. In a business sense, uncertainty exists in varying degrees based upon the nature of the firm's source of income. High levels of uncertainty mean increased risk. Increased risk means that the enterprise must yield higher returns in order to justify taking that risk. Competent management will seek to reduce risk born of uncertainty. This is accomplished primarily through superior planning that attempts to anticipate future requirements and conditions and to compensate for them.

Management foresight is, however, frequently frustrated by regulatory interventions. The entitlement program of the Federal Energy Administration effectively removes managerial incentives to secure supplies of crude oil at favorable prices by removing the gains that would have been enjoyed by firms whose managements had obtained longer term commitments of crude oil at low prices. The Federal Energy Regulation Commission's curtailment procedures routinely reward profligacy while penalizing conservation. Like the fabled ant who labored in the summer that he might survive the winter, firms which show the initiative to line up additional sources of supply to offset the predictable shortages of natural gas are likely to find themselves

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candidates for further curtailment. Meanwhile, the grasshoppers who fiddled away the summer are the more frequent beneficiaries of extra allotments, since the regulators seek to equalize suffering, not opportunity.[11]

Eating the Seed Grain

As the incentives of managerial perspicacity and planning are eroded, the tendency to await governmental decrees in lieu of independent action will undoubtedly grow. This lapsing of the business system into the management by crisis syndrome has not gone unnoticed by the investment community. This rising indolence of management is reflected in the greater apprehension with which the providers of capital view the elements of business risk.

The most heavily regulated industries have experienced significant increases in their cost of capital. Interest rates on corporate debt have tripled in the last 20 years.[12] Earnings have been unable to keep pace. As a consequence, many American businesses have been consuming their capital. The foolhardiness of such a practice is obfuscated by all manner of excuses from both government and industry. The current administration's position on energy seems to imply that it would be "unfair" for consumers to bear the full cost of the services they enjoy. The power industry's position, to judge from a number of their comments, seems to be that it is impractical to require that consumers bear the full cost of the services they consume.[13] This viewpoint has been implemented via extensive borrowing of funds. Apprised of this method's close resemblance to a Ponzi scheme, one power company official placed his trust in the hope that the impending collapse could be postponed to a distant future when some miracle of technology might save the day.[14]

The fact of the matter is that U.S. industry in aggregate has been unable to generate sufficient cash flow to cover its investment since 1965.[15] Contrary to popular myth, increased costs brought on by government regulations are not all passed on to the consumer. In recent years great amounts of the increased costs have come out of profits. Real corporate profits peaked in 1966. Corporate management has been unable to maintain them save through accounting methods that transform capital into phantom earnings.

The Enemy Within

The erosion of investment capital does not speak well of management's performance of its responsibility as conservator of the owners' assets. Capital is the pillar upon which the modern industrial society is founded. It is the repository of

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stored effort which has enabled humanity to obtain more and more by way of less and less direct labor. We have been, for the last decade or more, embarked upon a course bound to dissipate this capital.

This dissipation has received its crucial impetus from government intervention into the conduct of business activity. Management can hardly be faulted for obeying the law. However, the role of business management in the attenuation of the entrepreneurial system is more than that of an unwilling victim. Time after time, the initial agitation for government intervention has come from business itself. From the very beginning of the so-called Progressive Era, it has been at business's invitation that the government has imposed regulation.[16] The corporate community was a willing and active participant in the New Deal NRA—a program of government-directed cartellization of industry.[17] Today, business invitations for government collaboration grace the pages of our newspapers almost every day.

Prices of sugar down? The industry is quick to demand subsidies, tariffs, and controls. Steel industry beset by hard times? Management is vociferous in its demand for special relief and import quotas. Possibly the most galling example of management's tunnel vision occurs in the oil industry. At the very moment that the chief executives are bemoaning President Carter's attack on their integrity, the oil lobby is simultaneously pushing for deregulation of prices and imposition of tariffs on imported petroleum products.

In its quest to have the best of both worlds, business has gone a long way toward the establishment of the worst of all worlds. Managerial latitude has been severely circumscribed. Corporate leadership seems anxious to abdicate and many executives are well on the way toward becoming mere bureaucratic functionaries.

The Death of Managerial Enterprise

The key element in making management work is the entrepreneurial nature of the private enterprise system. Its gradual transformation into a quasi-public enterprise via increasing regulation dilutes the motivating elements and introduces a greater measure of irresponsibility. Bureaucrats can be urged or exhorted to produce better results, but the reality is that they bear little, if any, of the consequences (good or bad) of their managerial decision-making.[18]

A final piece of evidence that the growing reliance upon and dominance of regulation has eviscerated managerial vision and ambition comes from one of the participants

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in the federally supported Wesco Coal Gasification Project: "federal loan guarantees are necessary because of the large amount of capital required, but more importantly because coal gasification, on the scale proposed by Wesco, has never been attempted in the U.S."[19]

The belief that government backing is imperative for great undertakings is not the same spirit of enterprise that made American business the envy of the rest of the world. ⊕

—FOOTNOTES—

[1]G. T. Bowden, "Book Review: Business, Government, and the Public," *The American Spectator* (December 1977), pp. 37-38.

[2]*U.S. Constitution,* Article I, Section 8, paragraph 3.

[3]317 U.S. 111, 1942.

[4]*United States v. Rock Royal Co-operative,* 307 U.S. 533; and *Hood and Sons v. United States,* 307 U.S. 588.

[5]*U.S. Code* 49-1.

[6]*Arizona Revised Statutes* 40-202.

[7]*City of Chicago v. Federal Power Commission,* 1971, 458 F2d 731.

[8]*Pennsylvania Railroad v. U.S.,* CA, Pa. 1963, 315 F2d 460.

[9]*Commonwealth of Pennsylvania v. U.S.,* D.C., Pa. 1973, 361 F. Supp. 208.

[10]Peter Drucker, *The Practice of Management* (New York: Harper & Row, 1954), pp. 62-65, 126-129.

[11]"Gas Regulation Stymies Planning," *Purchasing* (June 17, 1975), p. 13.

[12]Alexander Paris, *The Coming Credit Collapse* (New Rochelle: Arlington House, 1974), p. 82.

[13]Correspondence with Southern California Gas Company (November 4, 1977), Arizona Public Service (November 2, 1977), and Transwestern Pipeline Company (November 16, 1977).

[14]Conversation with Arizona Public Service (November 11, 1977).

[15]Paris, *op. cit.,* p. 88.

[16]Gabriel Kolko, *The Triumph of Conservatism* (Chicago: Quadrangle Books, 1963).

[17]Ronald Radosh, "The Myth of the New Deal," *A New History of Leviathan* (New York: Dutton, 1972), pp. 146-87.

[18]Armen Alchian, *Economic Forces at Work* (Indianapolis: Liberty Press, 1977), pp. 127-150, 227-257.

[19]Correspondence with Southern California Gas Company, *op. cit.*

Performing the Task

IDEAS ON LIBERTY

WHEN A WORTH-WHILE TASK is to be performed, there are individuals who can and those who cannot; those who will and those who will not. The task is performed to the extent that there are those who both can and will. When government is permitted jurisdiction over the task, a third distinction is created: those who may and those who may not. Under these circumstances the best that can be hoped for is that those who may, includes all who can and will. Since this is rarely the case, the end result is usually the creation of another category; those who must!

LEWIS STEARNS, "Braiding the Lash"

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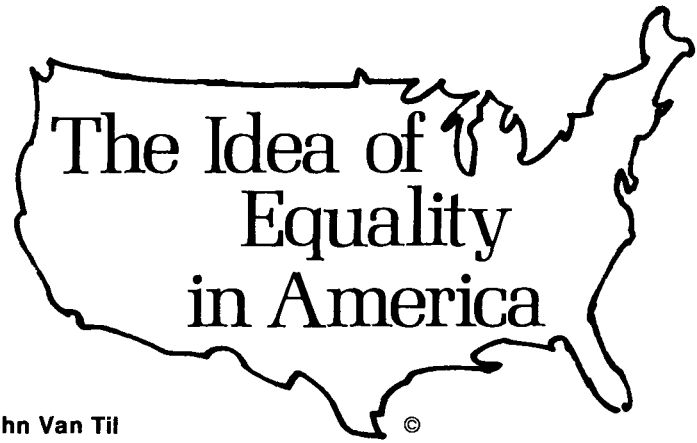

The Idea of Equality in America

L. John Van Til

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APOSTLES of reform in our time have convinced millions of Americans that the good life for all is finally possible, that Americans are about to enter the "promised land." All that must be done, they say, before the good life can be achieved is to have us bow down before the sacred idea of equality. Thinking in materialistic terms, the apostles of reform believe that the good life can be provided for all if only we use the power of the central government to distribute the "fruits of industrialism" equally. These well-intentioned reformers argue that we have most of the programs legislated and in operation, thanks to the efforts of the proponents of the Great Society. Richard Nixon preached this message, with some modification, and Jimmy Carter has embraced this doctrine of reform as well.

Contemporary reformers believe that programs like Affirmative Action and the Occupational Safety and Health Administration (OSHA) will right all wrongs in the market place, mellow evil hearts, elevate the downtrodden, and distribute the benefits of an affluent society to all. In the name of equality all sorts of programs are proposed, programs to guarantee a minimum income, provide "free" medical service to every citizen, and much more. The Walter Mondales and Joseph Califanos of our time demand programs too

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numerous to list, and they make their demands in the name of equality.

Today's Gospel of Reform

The apostles of reform today, the men of good will who cut their social and political teeth in the nursery of Franklin D. Roosevelt's New Deal or in Lyndon Johnson's Great Society, dream about every American having the same "rights," the same privileges, the same benefits, the same status, and all of this guaranteed to them by the central government. Unfortunately, most Americans have not stopped to ponder the implications of this new gospel of reform. Indeed, most of the apostles of reform themselves have not thought about the implications of their demands. Millions of Americans have been captivated by the prospects which the new social programs seem to offer. They believe that these programs may "give" them something, not remembering that "there is no such thing as a free lunch."

It is time to pause in the headlong rush down the path beaten by the proponents of equality. It is time to pause and inquire into the meaning of their claims that the good life can be achieved through the use of governmental power to achieve equality of conditions. As will be evident in the pages that follow, the new programs depend upon a very different concept of equality than was intended in the Declaration of Independence when it stated that "all men are created equal." Perhaps it is even more important to note how the apostles of reform today intend to achieve their new and expanded concept of equality. Unlike the Founding Fathers of the American Revolution, today's reformers believe that full use of all of the massive power of government is necessary and morally acceptable in the drive to achieve their new society, no matter that this would stifle individual initiative and creativity, and ultimately slaughter the economic goose that has laid the golden egg of prosperity.

In the pages that follow two parallel themes will be traced. One is the idea of equality itself. Where did it come from? How did it enter American social thought? How was it used in the Age of the American Revolution? How was it used in the heyday of social change, in the Era of Reform (1830-1860)? What brought about the change in meaning of equality in our time? The second theme, crucial to an understanding of the development of the idea of equality, is the concept of reform itself. How did Americans conceive of social change in the early days? In the Revolution? In the nineteenth century? How are these views of social change, or reform, different from that used by today's reformers?

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These and other questions must be examined on the way to an appreciation of the radical nature of the contemporary impulse to reform all of society in the name of equality.

Equality in the Age of the American Revolution

When Thomas Jefferson wrote that "all men are created equal," he did not mean that all men were equal in all respects. In other places he wrote with conviction about the existence of a natural aristocracy among men, based upon virtue and talent. Yet, many today quote Jefferson as though he intended to state that all men ought to be *made as equal as possible.* This is to speak of *equality of condition,* a position rejected by Jefferson and all political thinkers in the Age of the American Revolution. It was rejected because even a cursory examination of human nature reveals ineradicable differences among men.

If we are to understand the idea of equality in American society we must begin with an examination of its use in the mind of the Founders, tracing their view into subsequent developments in American history. Much has been written on the history of equality, especially in the twentieth century. Yet, most of what has been written does not help much to clear up the confusion that surrounds the term, confusion arising, for example, from the fact that Jefferson could state his belief in both equality and inequality without a sense of contradiction.

How did the idea of equality come to be part of the intellectual baggage of the mind of the American Revolution? The concept of equality was not an invention of the Founders themselves, rather it was absorbed by them from the intellectual climate created by the Enlightenment and from colonial experience. The typical *philosophe* argued that since sovereignty in political society rests with the people, a certain sense of equality follows. Yet this sovereignty was delegated, the *philosophe* argued, to the crown or to other rulers. But the notion that equality could be part of society at all was part of their theoretical or mythical claim that equality had to be part of the State of Nature.

Enlightenment Thinkers

Voltaire observed that equality must have been part of the State of Nature, yet it was something that men give up when they enter human society. Montesquieu agreed, but stressed the fact that since only a very limited degree of equality was possible in human society, men are left to ponder how they may reduce the inequalities. Sanford Lakoff has pointed out in his definitive study of equality in political theory that "the philosophical champions of enlightenment in the eighteenth cen-

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tury were for the most part less anxious to propose equality than to denounce extreme inequalities."[1]

The most powerful and most direct influence on American thinking about equality was John Locke. His *Treatise on Civil Government* had considerable impact on the development of political theory in America. In it he argued that each man is born according to the rights and privileges of the law of nature "equally with any other man or number of men in the world."[2] Locke's view of equality appears to be a corollary to his belief that man comes into the world with the mind a blank slate. Distinctions among men were the result of what experience wrote on the tablet. In his scheme these differences and inequalities were, therefore, not from nature, but rather artificially wrought. Locke concludes, like the *philosophes,* that in nature there is equality though in society there are inequalities. But, importantly, in his scheme it was possible to change some of the "artificial" inequalities into conditions that were more equal. Locke himself did not explain how society should be changed in this regard.

In some respects his view of equality is qualified by his concept of Reason. Though he observes that "all men are by nature equal," he also states that "I cannot be supposed to understand all sorts of equality." By Reason men may establish certain political practices which will assure "that equal right that every man hath to his natural freedom." By this he means to guarantee that none should be "subjected to the will or authority of any other man."[3] Lakoff concludes that Locke did not intend equality to be an instrument for leveling in any area of society except in politics.

Colonial Experience

In addition to the theoretical understanding of equality provided by Locke and the Enlightenment thinkers, the Founding Fathers were heirs to a practical understanding of the idea based upon colonial experience. The colonies were far distant physically and psychologically from England and Europe, and thus, far removed from the pretensions of aristocracy. Equally important were the facts of life in the wilderness. Frederick Jackson Turner stated this point clearly when he said that "the wilderness stripped the garments of civilization" from a man, confronting him with the Indians, starvation, disease, and other hazards of the frontier. The settler was on an equal footing with his fellows, for the frontier life would kill the son of an earl as readily as the son of a cooper.

Further, life on the frontier with the lack of fixed social organization made men free and equal in a visible

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sense. In this condition one could change his social position very rapidly; hence, there was no need for a person to feel inferior to his neighbor. These conditions prompted Tocqueville to remark, "The soil of America was opposed to a territorial aristocracy," concluding that the equality forced upon Americans by the conditions of their existence was the most compelling fact about the quality of life in America.[4]

Colonial experience elicited one common reaction from people, a desire for equal opportunity, the most forceful element in the equalitarian tradition in America. This was the motivation for most who came to these shores. Wealthy and successful Englishmen, for the most part, did not come because they had no need to improve their condition. Those who did come were in search of a way to improve their lot, disadvantaged people, middle-class squires who hoped to become landed gentry, and others. Tocqueville saw this and observed, "The happy and powerful do not go into exile, and there are no surer guarantees of equality among men than poverty and misfortune."[5]

The Reformation Tradition

The central cluster of ideas that were used in the era of the American Revolution had their tap roots in the Reformation tradition as modified by Puritan experience. This is evident in the concern the Founders had for liberty. It was to preserve liberty that the American Revolution was fought. True, there were other concerns, but it was to preserve religious, economic, and political liberty that the Americans rallied in the 1770's. Preservation of liberty was a concern that ran deeply in colonial and English experience. Roger Williams made this point when he left Massachusetts Bay and formed Rhode Island. Liberty of conscience, Williams said, is the most precious freedom that man has and he must protect it with his life if necessary.[6]

Williams was carrying on the fight that had begun in England, and had been fought for in the English Civil War. Freedom, by the 1770's, was the most fundamental idea in the American mind. Freedom in this sense was a corollary of the Protestant Reformation. The Reformation in England resulted in the Westminster Standards, one of which declared, "God alone is Lord of the conscience and hath set it free from the doctrines and commandments of men." Man through conscience was free in relation to other men. It was this idea that informed the American experience between the days of the early settlements and the time of the Revolution. In this sense the American Revolution's principal ideas were rooted in a Reformation base.[7]

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Perhaps a consideration of the difference between the American and the French Revolutions will help to make the point more obvious. Men act in important events upon what they conceive to be the most fundamental authority. The trauma of the moment is relieved if one appeals to the most secure authority possible. Since this is true, we may look at these revolutions from the point of view of what they conceived to be authoritative for them as they acted out their revolutionary aims.

Authority, for the Americans, was rooted in the God of Revelation in Scripture, or in the laws of nature that He had created. True, some of the leaders of the American Revolution stressed the laws of nature, but even this emphasis presupposed a transcendent God who limited and defined the actions of men. In contrast, the men of the French Revolution, products of the Enlightenment mind all, enshrined Reason as their authority. Reason, when viewed in this way, is not subject to a transcendent God; rather, it becomes whatever the mind of man makes it. The result for France was a revolution which knew no bounds but human imagination. Liberty meant whatever one wished. Indeed, liberty among the French came to mean license. Equality was part of the French Revolution's ideology, too. But in the context of Reason, equality turned out to be a radically leveling concept, unchecked by any Biblical notions of the social order.

It would be incorrect, therefore, to argue that the mind of the American Revolution was the product of the Enlightenment, although some of its principles were absorbed into the thinking of some of the leaders of the American Revolution. Here an important distinction must be emphasized.

In a Context of Freedom

When the Founders spoke of equality, they did so in light of colonial experience, and to some degree from Enlightenment influence. But all discussion of equality was within the context of a more basic principle, namely freedom. Stated another way, freedom as developed in the Reformation tradition was the fundamental, constitutive principle in the American Revolution, while equality was a secondary and incidental concept.

With these matters in mind we are in a position to survey some of the Founders' expressions about equality. Thomas Paine had no difficulty with the concept when he said that "the unity or equality of man is one of the greatest of all truths." Fisher Ames objected to Paine's unqualified endorsement of equality, calling it the "pernicious doctrine" of demagogues. Joel Barlow, in his *Vision of Columbus* (1787) wrote, "Equality of right is nature's plan,

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and following nature is the march of man." Franklin, an instinctively practical man, commented that "Time, Chance, and Industry" created distinctions among men. He also believed that all men were fundamentally equal in "the important ends of society, and the personal securities of life and liberty."[8]

By far the most extensive and reflective comments on the place of equality in the American scheme of things came from Jefferson and Adams, especially in their exchange of letters after both were in retirement. Both agreed that equality was a law of nature, but what did it mean beyond that? Adrienne Koch, a recognized student of Jeffersonian thought, states that Jefferson did not mean an arithmetical equality which reduces all men to the same level of talent, ability, and moral virtue. Rather, she observes, he was talking about the essential traits of the species.[9]

Adams took the same view. It is, he said, nothing more than the fact that men "are all of the same species, and this is all that equality of nature amounts to. . . . Nature has ordained that no two objects shall be alike, and no two perfectly equal." For Adams equality most certainly did not mean what some of its more extreme proponents said it did: "Equal rank and equal property can never be inferred from it, any more than equal understanding, agility, vigor, or beauty." Then Adams came to the heart of the matter: "Equal laws are all that can ever be derived from human equality." Adams had no intention of denying equality. His concern was to define correctly its limits. Clearly he rejected what has been called "equality of condition."[10]

Jefferson believed that equality was a gift of God through nature; it was a self-evident, natural right that society could neither give nor take away. Thus, it guaranteed all men perfect equality of human privilege (life), political and religious prerogatives (liberty), and personal opportunity (pursuit of happiness). Limited in this way, equality did not extend to physical, moral, intellectual, or other aspects of human existence.[11]

Equality in the Life of the New Nation

To understand the character of American society in the life of the new nation, in the period between 1789 and 1869, some consideration must be given to the way this era has been interpreted by historians in our time. The reason for this is the fact that this period has been an intense battleground between advocates of a neo-Marxist view of history and more conventional views. Once the effect of this dispute has been outlined, it will be more clear what the true state of affairs con-

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cerning social theory actually was.

Led by Charles Beard, historians in the twentieth century have viewed American history as primarily a struggle between social classes, between the rich and the poor, those in power and those who exercise no power. Virtually every textbook in the past forty years assumed this point of view as it covered the early life of the new nation. Obviously there were differences between people in American society, differences in wealth and in power. The Founding Fathers saw such differences in their time, but they understood that such differences were natural and unavoidable. Unlike the Founding Fathers, Beard and his followers have taken the point of view that social differences are wrong and should be eliminated; therein, they follow the thinking of Marx and other socialists.

The assumptions of the Enlightenment and French Revolution were always present in America as an option for Americans to embrace. In general, it is true that these principles were not adopted *in toto* by Americans during the Revolution and during the nineteenth century. But circumstances changed as the twentieth century began. Increasingly, the intellectual climate was ripe for the acceptance of the ideas of the Enlightenment and the French Revolution, mediated, in some respects, by Marx. Indeed, it may be stated that as the influence of this tradition grew in America, it did so in proportion to the decline of the influence of the Reformation tradition as expressed in the principles of the American Revolution. In other words, by the end of the nineteenth century intellectuals were disposed to accept humanistic standards rather than Biblical ones, whether the humanistic standards were scientific or in some other form.

Economic Class Conflict

Anyone with a knowledge of American history writing knows that Beard, Carl Becker, James Harvey Robinson, J. F. Jamison, Arthur Schlesinger, and many other lesser lights in the field were devoted to writing history from the point of view of economic class conflict. They have been succeeded by a generation of disciples who followed their lead slavishly. Together these writers have shaped the image of the American past into a picture which is dominated by the principle of class conflict.

Two generations of Americans have grown up on history written from this point of view. The result has been that most Americans assume that soon after the Revolution, if not in the Revolution itself, American society began to be dominated by a conflict between those with wealth and power and those without it. The hidden assumption

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in this interpretation is the notion that the Revolution instituted the principle of equality of condition. The class conflicts that are said to have taken place were aimed, in this view, at achieving equality of condition.

One of the main areas of impact of this revisionist view of American history has been in interpreting pre-Civil War society. Of course that era was a time of very rapid change in American society as it began to make the transition from an agrarian base to an industrial one. But the question is how to evaluate these changes. Is the fact that many people were able to climb the social ladder evidence of class conflict? Contemporaries did not view it that way. Many could build better houses, save money, take trips, and more, but such social development does not imply class conflict.

The class conflict writers have imposed their bias upon the evidence from the period to create their own vision of society. These writers are a product of their age, a time when it was intellectually respectable to reject the Protestant Ethic, to reject the philosophy of the Founders, and to embrace leveling concepts in the tradition of the French Revolution and in the tradition of Marx.

Turn now to Douglas Miller's comments on the problem in his *Jacksonian Aristocracy*. Though Miller's purpose in writing was merely to correct some errors of other writers in the class conflict tradition of interpretation, he does establish the point we wish to emphasize. Miller states, "To write of the rise of aristocracy in Jacksonian America is to contradict traditional beliefs and interpretations." Conscious of his disagreement with some in the class conflict school, he continues, "Politically this was the age of democracy as historians have repeatedly emphasized." Noting the main theme of those he criticizes, Miller states, "Most political studies of the Jacksonian era have implied that democracy was victorious not only in the political realm but socially and economically as well." Coming to the heart of his argument, Miller concludes:

> This study does not deny that representative political institutions based upon nearly universal white manhood suffrage were the rule from the Jacksonian era to the Civil War. Politics is given very minor consideration here. What is questioned, however, is the assumption that throughout this period democracy meant social and economic equality as well as equal political rights.[12]

Equal Opportunity

Social and economic equality was not a constitutive principle of the American system created in the Revolution and embodied in the Con-

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stitution. Inequalities in America did exist, but they were not based upon a feudal hereditary nobility as they were in Europe. Inequalities were obvious in such things as "wealth, rank, manners, dress, speech, family, and intellect," Miller observes. Of these, says Miller, "Wealth was the outstanding criterion for high social standing, and as long as inequalities of wealth were comparatively slight . . . it was easy for Americans to associate political democracy with equality."

Concerning equality, Miller observes further that "the concept of equality itself had a meaning peculiar to America. As a belief it did not imply that the rich should be reduced to the level of the poor." Here, it must be pointed out, we see one of the principal differences between twentieth-century equalitarianism and the ideas of equality in the nineteenth century. Equality was not a device to be used for erasing of social distinctions. Continuing, Miller captures the essence of the idea in that age when he notes that "equality meant that each person should have an equal chance to outstrip his neighbor and become rich himself."[13]

The point Miller is making needs to be emphasized. He argues that while there was great interest in the idea of equality in this age, it was defined in a way very different from that in a later age. Equality was tied to opportunity and in this sense it was closely related to the fundamental concept of the American Revolution, namely, freedom. In this age each man wanted to be free to seek a better life, he wanted to have an equal chance to rise on the ladder of well-being. Americans could see the expansion of economic wealth around them and they wanted to be free to gain part of it for themselves. Miller states this another way when he says, "The most important single factor in shaping and sustaining American equality and democracy was this accessibility of wealth."[14]

Others have found what Miller has noted concerning equality in this era. Alan Grimes states that "to the extent that there was an underlying and unifying theme to the Jacksonian movement, it existed in an emphasis on equality." The Jacksonians did not believe that men were equal in talents or capacities, or that they ought to share equally in property, according to Grimes. Jacksonianism, broadly conceived, was a reaffirmation of the principles of the Declaration, especially that portion that spoke of an equal right to pursue happiness.

Most foreign travelers observed these qualities in America, sometimes being confused by them. Michel de Chevalier, traveling in 1833, observed that the democratic spirit was infused into all the habits and customs of society, and it "beset

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and startled" the foreigner who had his every nerve and fiber steeped in European aristocratic ways. A British sea captain noted in his diary in 1839 that "among the advantages of democracy the greatest is that all start fair," by which he meant that all have an equal opportunity.[15]

Politically Equal

James Fenimore Cooper also commented on the question of equality in this era. Though Cooper was suspicious of much of the hubbub of day-to-day politics, he gave thoughtful considerations to the place of equality in the reform movements of that day. He made it clear that equality meant neither reducing all men to the lowest level of mediocrity nor raising all men to the highest level of superiority. Democracy, a much discussed topic at the time, meant an equal right to participate in community affairs. Equality was a matter of civil and political rights in his view; not an equality of talent or property. In short, Cooper embraced a view of equality like that of the Founders.[16]

Benjamin Franklin had pointed out long before that there was an inconsistency between the claims of the Declaration and a system that extended freedom and equality to only part of the human race. This inconsistency came to haunt American society in the early decades of the life of the new nation. The fact that slaves in America were black was convenient for those who wished to avoid extending freedom and equal opportunity to them, for it could be argued that it was their color that made them different, thus a rationale for enslavement. But this argument merely put off the day when American society would have to face up to the inherent inconsistency that Franklin had pointed out. The fact is, however, that the deeply held commitment of Americans to equality of opportunity was the basis for the Abolition Movement that was so prominent in the life of the new nation. In time, the inequality of opportunity for Blacks became a principal political issue in the life of the nation, leading to the Civil War and the Emancipation Proclamation.

Lincoln, though believing that Negroes were inferior in some ways, found a way to explain why they should not be slaves. The writers of the Declaration of Independence meant, he said, to include all men in their declaration of human equality,

> but they did not intend to declare all men equal in all respects. They did not mean to say that they were equal in color, size, intellect, moral developments, or social capacity. They defined with tolerable distinctness in what respects they did consider all men created equal—equal with certain inalienable rights, among which are life, liberty, and the pursuit of

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happiness. This they said and this they meant. They did not mean to assert the obvious untruth that all were then enjoying that equality, nor yet that they were about to confer it immediately upon them. In fact, they had not power to confer such a boon. They meant simply to declare the right, so that the enforcement of it might follow as fast as circumstances should permit. They meant to set up a standard maxim for free society, which should be familiar to all, and revered by all; constantly looked to, and even though never perfectly attained, constantly approximated.[17]

He spoke of the same problem in one of his debates with Douglas when he stated:

I agree with Judge Douglas that he is not my equal in many respects—certainly not in color, perhaps not in moral or intellectual endowment. But in the right to eat the bread, without the leave of anybody else, which his own hand earns, he is my equal and the equal of Judge Douglas, and the equal of every living man. . . . If the Negro is a man, why then my ancient faith teaches me that "all men are created equal," and that there can be no moral right in connection with one man's making a slave of another.[18]

Here Lincoln tied the issue of equality to the traditional view of natural rights, as expressed in the Declaration. Next he proposed equality of opportunity as an integral part of his argument, applying both of these to the question of slavery. Typically, Lincoln gave evidence of thinking clearly about a question that few others saw very well.

Equality in Post-Civil War America

In the years after the Civil War the dominant intellectual change was in the direction of acceptance of the Darwinian assumptions about the nature of man and society. On the one hand, the descent of man implied a common origin, in a way that the Creation account had not. On the other hand, the claim that the fit survive seemed to support an emphasis upon inequalities, indeed, that inequality was a law of nature. Evolutionary views valued superiority more than they did equality; the strong and the weak were unequal, and nature intended it that way. And there was, in the evolutionary mind, a great emphasis upon nature; devices, such as government programs which altered nature's ways were viewed with suspicion. Huxley wrote, "Men are not all equal under whatever aspect they are contemplated, and the assumption that they ought to be considered equal has no sort of *a priori* foundation."[19]

There was a sense in this era that a proper understanding of equality was at last possible. Wrote William Graham Sumner, "The doctrine that all men are equal is gradually being dropped, for its inherent absurdity." Nicholas Murray Butler's *True and False Democracy* stated that the

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"cornerstone of democracy is natural inequality, its ideal the selection of the most fit." Barrett Wendell argued that the doctrine of equality was alien to the American tradition and derived from the untrustworthy philosophic "vagaries of Eighteenth-Century France." Lothrop Stoddard stated that "the idea of natural equality is one of the most pernicious delusions that has ever afflicted mankind." Further, he said, "Nature knows no equality. The most cursory examination of natural phenomena reveals the presence of a Law of Inequality as universal and inflexible as the Law of Gravity."[20]

These writers did not intend to deny completely the notion of equality as stated in the Declaration. Rather, they intended to emphasize equality of opportunity as opposed to equality of condition. True equality, said Sumner, "sets each man on his feet and gives him leave to run." It would be a mistake to go beyond this conception, he argued. Lester Frank Ward agreed when he suggested that "equality of opportunity is the only means of determining the degree of merit" among individuals.[21] Equality of opportunity must be viewed in practical functional terms, they believed. Equality at law, equality in voting, and equality of economic opportunity were the principal concerns of these commentators.

"Looking Backward"

In this age there were dissenters from this view, namely, that equality meant equality of opportunity. Some, like Edward Bellamy, author of the best selling *Looking Backward,* argued for equality of condition. In this, Bellamy may be viewed as taking the first step in the creation of "New Style" Progressivism. Bellamy wrote in his novel *Equality* (1897) that he intended to prove that "equality is the vital principle of democracy," of American society. "What is an equal right to life, but a right to the equal material basis for it?" he asked as narrator in the book. "The cornerstone of our state is economic equality, and is not that the obvious, necessary, and only adequate pledge of these three birthrights—life, liberty, and happiness?" In this Bellamy was giving equality a new meaning. In fact, he was arguing for equality of condition. All men, he thought, should have an equal state in life's race. They must be provided with clothing, shelter, food, health, education, and all else necessary to life. Then men would really have an equal opportunity, argued Bellamy.[22]

We have argued that equality in America has traditionally meant equality of opportunity in the sense that the men of the Revolution viewed it. We noted, further, that due to a growing influence of the Enlightenment tradition, equality has

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now come to mean equality of condition, that is, that everyone must live in conditions that are as nearly equal as is possible. Yet, we miss much of the meaning if we do not realize that equality of condition has become a "goal" of reformers in our time, and realize that they intend to achieve this goal through the "agency" of governmental power.

Is this not what is taking place with programs such as Affirmative Action and OSHA? All too obviously such programs are based upon the massive power of the government for the achievement of their goals. Are not the goals of such programs aimed at achieving "equality of condition"? Surely, Affirmative Action seeks to level society into one in which all citizens are as nearly equal as is possible. Surely such a program is a classic example of the reform tradition which believes that the good life will be achieved only through the use of governmental power to insure equality of condition. But what happens to freedom in this scheme of reform? Where are the rights and liberties which the Founding Fathers fought for and sought to preserve in the Constitution? Can anyone doubt the fact that these freedoms are seriously eroded by programs of reform that have equality of condition as their goal?

What is the future of American society when it continues to be driven by the philosophy of reform which advocates equality of condition achieved through the agency of government? Where will it lead? Americans should ponder the possibility that following this plan we can arrive at conditions which George Orwell described in his *Animal Farm* when he said "All animals are equal, but some are "more equal than others." Who are the ones in society who are "more equal than others"? We cannot avoid the conclusion that this class of people is the well-intentioned employees of the government who design and enforce government programs aimed at establishing equality of conditions.[23]

The Alternative

There is an alternative to the continued growth of government programs aimed at creating conditions of equality. The American people still have the means to arrest this process. They can object to their Congressmen. They can protest against government programs in the Courts. They can complain about government intrusion into their lives in the public press. Most important, however, Americans can return to their senses and realize that most of these programs are the result of an alien perspective, alien to the tradition of the Founders.

The Founders spoke of *limited government* and of *freedom* because they thought and acted in the Re-

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formation tradition. In this tradition, men know that all conditions of life cannot be changed, much less changed by the power of government. In this tradition, men know that some conditions can be changed only when there is a change in the hearts and minds of people. Kierkegaard had this in mind when he said of equality:

> Leveling, after all, was only the final phase of a long and ill-conceived effort to solve in worldly ways problems which could only really be approached religiously.[24]

Without an appreciation of this view, without an appreciation of the tradition of the Founding Fathers, it will, no doubt, not be long before the drive to achieve equality of condition in America results in the creation of a brave new world in the country that once was the land of the free and the home of the brave. ⊕

—FOOTNOTES—

[1]Sanford A. Lakoff, *Equality in Political Philosophy* (Cambridge, 1964), p. 89.

[2]George L. Abernethy, *The Idea of Equality: An Anthology* (Atlanta, 1959), p. 137.

[3]*Ibid.*, p. 138.

[4]Russel B. Nye, *The Almost Chosen People: Essays in the History of American Ideas* (East Lansing, 1966), includes a chapter entitled "American Society and the Idea of Equality," which is most provocative. I am indebted to Professor Nye for this discussion of colonial influence on the idea of equality in America. See pp. 312ff.

[5]*Ibid.*, p. 312.

[6]L. John Van Til, *Liberty of Conscience: The History of a Puritan Idea* (Philadelphia, 1972), p. 58.

[7]*Ibid.*, p. 86.

[8]Nye, p. 316.

[9]Adrienne Koch, *Power, Morals, and the Founding Fathers: Essays in the Interpretation of the American Enlightenment* (Ithaca, 1961), p. 26.

[10]Nye, p. 317.

[11]*Ibid.*, p. 318.

[12]Douglas T. Miller, *Jacksonian Aristocracy: Class and Democracy in New York 1830-1860* (New York, 1967), pp. vii-x.

[13]*Ibid.*, p. ix.

[14]*Ibid.*, p. 19.

[15]Nye, p. 319.

[16]*Ibid.*, pp. 322-323.

[17]*Ibid.*, p. 332.

[18]*Ibid.*

[19]Thomas Henry Huxley, "On the Natural Inequality of Man," *Nineteenth Century* CXLV (Jan. 1890), p. 8.

[20]Nye, p. 334.

[21]*Ibid.*

[22]*Ibid.*, pp. 336-337.

[23]L. John Van Til, *The Promise of American Life Revisited: An Essay* (Grove City, 1976), p. 6.

[24]Lakoff, p. 177.

IDEAS ON LIBERTY

The Indispensable Condition

THE true end of man—not that which capricious inclination prescribes for him, but that which is prescribed by eternally immutable reason—is the highest and most harmonious cultivation of his faculties into one whole. For this cultivation, freedom is the first and indispensable condition.

WILHELM VON HUMBOLDT

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The Future That Doesn't Work

OLE-JACOB HOFF, a Norwegian devotee of Leonard Read's "freedom philosophy" who is a frequent speaker at Mont Pelerin Society meetings, has a recurrent bad dream. He sees his country becoming wealthy on State-owned North Sea oil. The income, he fears, will be used by the government to buy the controlling shares of what is left of free enterprise in an already heavily socialized country.

It's a sobering thought, but maybe Ole-Jacob Hoff's nightmare about Norway's future will also come true in a slightly different way for England. Leslie Lenkowsky, a contributor to a fine little book, *The Future That Doesn't Work: Social Democracy's Failures in Britain,* that has been edited by R. Emmett Tyrrell, Jr. (Doubleday, 245 Park Avenue, New York, N.Y. 10017, $6.95), raises the possibility that North Sea oil may make "social spending" in England "as manageable as it was a decade ago." If this is to happen we will have more confusion. For, on Lenkowsky's own evidence, "social spending" even where it seems to be working is accompanied by a channeling of energies into "less productive endeavors." Thus, to bail Britain out in its cradle-to-grave welfarism would do Britons themselves a vast disservice.

Oil may postpone the day of reckoning in Britain, but Mr. Tyrrell's contributors have no illusions about mitigating circumstances when it comes to Britain's future. The trouble with British welfarism is that it destroys the incentive that is needed to create the surplus to pay doctors and teachers, to provide for insurance, and to renovate deteriorating physical plant. As Mr. Tyrrell, who is the bright editor of *The American Spectator,* notes in his introduction,

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the whole business of welfarism, when it becomes a matter of State guarantee, must result in a contradiction in terms. Britain has paid for its cradle-to-grave security with high inflation, a straitened rate of productivity, high unemployment, and a steadily increasing crime rate.

The ironies connected with the British drive for equality are delicious. Instead of supporting a landed aristrocracy, or a funded upper middle class, Britons are now supporting the "new lads on top"—i.e., an overweeningly arrogant bunch of trade union leaders. Peregrine Worsthorne describes the new labor aristocracy for Mr. Tyrrell in some chortling prose that recalls H. L. Mencken at his best. The British trade unions "have a cause that excuses excess . . . just as Popes in the Middle Ages got away with murder, claiming to be doing God's work, so today do trade union leaders enjoy a comparable kind of immunity and protection, because they are doing the modern equivalent of God's work."

Dull Dogs of Fabianism

"Liberal squeamishness," says Mr. Worsthorne, lets the union bosses get away with it. Colin Welch in another essay, traces this squeamishness back to "dull dogs like Sidney and Beatrice Webb, Harold Laski, John Strachey, R. H. Tawney and Anthony Crosland." These "dull dogs" did not "see poverty and toil as the natural or original state of affairs, in which capitalism found nearly everybody and from which it has rescued many." No, they were profoundly ignorant of their forebears' "struggles, skills, services, and achievements." The dull dogs of Fabianism thought the wealth had been there just for the taking, and all they could contribute was a guilt complex that tried to explain their ancestors' enterprise as simple expropriation, not as plain hard work.

Welch is just as amusing as Peregrine Worsthorne in the ways he lays about him. His "dull dogs," the intellectuals, are wide open to the charge of hypocrisy. George Bernard Shaw, for example, was a "vast and greedy acquisitor." John Strachey, a "Stalinoid Marxist" before he simmered down and became a Labour Minister, was "rich throughout." The patrician Tawney "sneered at the common vulgarity and bad manners of businessmen, though when shopgirls were rude he applauded."

None of the Fabian intellectual pioneers was capable of "grasping the role of risk-taking and profit- or loss-making in the maintenance of economic efficiency and above all in innovation." The Fabian ideal was to substitute for the enterprising individual a society dominated by "swarming hives of bureaucrats and

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busybodies and experts, their snowstorms of paper, their echoing wastes of gassing and boredom, their pandemonium of ceaseless but sterile controversy."

Powell's Law

Aneurin Bevan, who piloted the National Health Service legislation through Parliament, was neither a dull dog nor a hypocrite, but his handiwork has misfired. Harry Schwartz, in his contribution to Mr. Tyrrell's symposium, leaves no doubt about that. "The potential demand for care," says Mr. Schwartz, "can bankrupt any nation that attempts to provide it free of charge." Mr. Schwartz says Aneurin Bevan never understood that "if patients need not pay directly for medical care, they will resort to it for the trivial indisposition as well as for the serious illness." Enoch Powell formulated it in "Powell's Law" when he said the "demand for 'free' medical care" must quickly outrun "any possible provision for it." The consequence of "Powell's Law" is that England now has 26,000 doctors trying to administer to tens of millions of patients. The waiting time for surgery has steadily lengthened, and the chances of getting a hospital bed in an England that has ceased to build hospitals diminish year by year.

Instead of producing a more moral society, welfarism has encouraged envy, grabbing and a cheap exaltation of Robin Hood as a national hero. James Wilson, in his contribution to the Tyrrell volume, notes that the crime trends in London, while they are not comparable to the increase in violence in American cities, are nonetheless "ominous." Muggings in London went from 674 in 1968 to 1,544 in 1972. The totals, by American standards, may be small, but the increase, in a society celebrated for its respect for the person, is nonetheless disconcerting.

Are we about to have a conservative revival in England? The intellectual atmosphere would suggest that the day of the Fabians is done. The Worsthornes and the Colin Welches are doing the most vigorous polemical writing in contemporary London. But the "British disease," sometimes known as "Englanditis," hangs on. Irving Kristol, in the final essay in Mr. Tyrrell's book, writes an "obituary" for the idea of socialism, but he still sees the "dead idea" of the Fabians as something that "has to be removed and buried."

Only liberal capitalism, says Kristol, can perform the funereal task. The trouble is that liberal capitalism regards such a task as an essentially "private affair." It will have to change its attitude if the death of socialism is to mean something more than "general disintegration." ⊕

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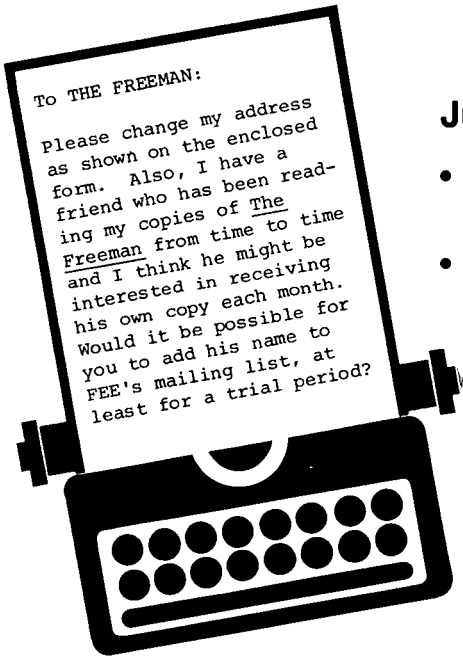
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MAY 1978

The Free Lunch Myth ..... E. C. Pasour, Jr. 259

Walking into a Trap ..... Gary North 265

Inflation in One Page ..... Henry Hazlitt 276

World In the Grip of an Idea
17. Sweden: Tightening
the Screws ..... Clarence B. Carson 278

Risk and Profit versus
Security ..... Kenneth McDonald 291

Government Regulation and
Business Management..... John Semmens 297

The Idea of Equality in
America ..... L. John Van Til 303

BOOKS:

The Future That Doesn't Work John Chamberlain 318

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